Austria	Sch. 18	Indonesia	Rp 2500	Portugal	Esc 80
Bahrain	Din.0.650	Italy	L 1300	S. Arabia	Rls 6.00
Belgium	BFr.42	Japan	Y550	Singapore	S$ 4.10
Canada	C$1.90	Jordan	Fils 500	Spain	Pta 110
Cyprus	C£0.80	Kuwait	Fils.500	Sri Lanka	Rup 30
Denmark	DKr 7.25	Lebanon	£L 8.00	Sweden	SKr 6.50
Egypt	E£1.00	Luxembourg	LFr.42	Switzerland	SFr 2.20
Finland	Fmk 6.00	Malaysia	Rgt 4.25	Taiwan	NT $35
France	FFr. 8.00	Mexico	Pes. 300	Tunisia	Din 0.600
Germany	DM 2.20	Morocco	Dh 6.00	Turkey	L 210
Greece	Dr 70	Netherlands	Fl 2.50	U.A.E.	Dh 6.50
Hong Kong	HK$ 12	Norway	NKr. 6.00	U.S.A.	$1.00
India	Rup. 15	Philippines	Pes. 20		

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,665 Wednesday July 3 1985 D 8523 B

Europe's communists swing back towards Moscow, Page 13

World news | Business summary

Thatcher plays down summit differences

Prime Minister Margaret Thatcher says the UK Government might agree amendments to the Treaty of Rome and would consider carefully any proposals put forward.

She emphasised that the proposed inter-governmental conference to consider changes, following the abortive EEC summit in Milan, must deal with practical proposals rather than vague hopes.

Quoting German and French newspapers which shared her impatience with the other EEC government leaders, Mrs Thatcher stressed that the summit decisions reflected British thinking. Page 14.

Cabinet reshuffle

Spanish Prime Minister Felipé Gonzalez is expected to drop six ministers from his Cabinet, the first changes since his Socialist Workers' Party took office in 1982.

Leader kidnapped

Gunmen claiming to belong to the Party of the Poor have kidnapped United Socialist leader Arnoldo Martinez in Mexico City during campaigning for next Sunday's election. Page 6.

Election extended

The Zimbabwe Government has hurried through legislation to extend the general election for a further two days after only 500,000 of the 2.9m voters were able to cast their votes on the first day because of long queues.

Premier re-elected

Dominican Prime Minister Eugenia Charles was elected for a second five-year term but with a reduced majority.

Recovery hopes fade

Hopes of recovering the flight recorder of the Air India Jumbo jet that crashed into the Atlantic off Ireland faded with the failure of recovery ships to pick up its homing signal.

Lusaka bomb denial

Zambia blamed South Africa for the bomb that damaged the African National Congress building in Lusaka, but the South African Defence Force "categorically denies any involvement in the blast."

Lead-free launch

French petrol companies began selling lead-free petrol at over 100 garages as the first step in a programme to reduce air pollution adopted by EEC environment ministers.

Comet rendezvous

An Ariane rocket carrying Europe's Giotto spacecraft has been launched from French Guyana to rendezvous with Halley's Comet next March. Page 8

Biko evidence

A South African security policeman in charge of interrogating black leader Steve Biko, who died in custody, said he would have handled the investigation differently if doctors facing a medical inquiry had told him Biko was seriously ill.

Mitterrand slip

A quarter of the French voters who backed socialist François Mitterrand in the 1981 presidential election have changed their minds, according to a survey by the independent Sofres organisation.

Prison hostages

Rioting prisoners in the Tennessee state prison in Nashville took 12 guards hostage during a protest over wearing striped uniforms.

Chinese executions

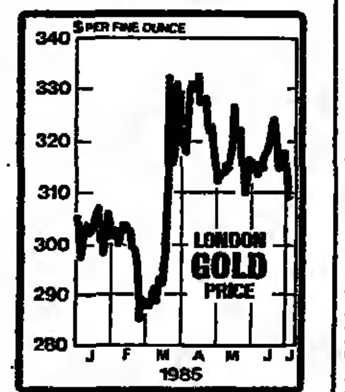
China has executed two oilfield workers charged with forming an anti-government group and killing security officials.

Upturn in U.S. new factory orders

AMERICAN defence spending and declining interest rates overcame the flood of manufactured imports last month to produce a modest turnround in new factory orders and single-family home shares, according to the U.S. Commerce Department. Page 6

WALL STREET: The Dow Jones industrial average closed down 3.13 at 1,334.01. Page 34

GOLD: In New York the August Comex settlement was $311.40. Gold fell by $4.25 on the London bullion market to $309.00 and by $5.35 in Zurich to $308.65. Page 26



DOLLAR was generally firmer in London, rising to DM 3.045 (DM 3.041), FFr 9.27 (FFr 9.2625) and Y248.3 (Y247.9), but easing to SwFr 2.547 (SwFr 2.5485). On Bank of England figures the dollar's exchange rate index rose to 144.3 from 143.9. Page 27

STERLING was little changed in London, losing 10 points against the dollar to $1.3045. It also fell to SwFr. 3.2225 (SwFr 3.3225) but was unchanged at DM 3.9725 and rose to FFr 12.085 (FFr 12.075) and Y324.0 (Y323.5). The pound's exchange rate index fell 0.3 to 80.9. Page 27

LONDON investors lost confidence during the afternoon and clipped prices back from their highs for the day. The FT Ordinary index closed up 1.8 at 954.3. Gilts improved. Page 34

TOKYO shares drifted lower despite buying interest from private investors. The Nikkei-Dow market average came back from an early peak to close 5.28 lower at 12,913.75. Page 34

DEVELOPING countries exporting $18bn a year of textiles and clothing to the U.S. are lobbying in Washington against the protectionist textile Bill before Congress. Page 5

SWEDEN topped the list of borrowers in the Eurobond market in the first half of 1985, raising $3.24bn through 15 issues ousting the World Bank with $3.18bn. Page 14

MORE new issues flooded the Eurodollar bond market with the EEC topping the list with a $350m, five-year deal. Page 15

UK INSURANCE companies recorded first trading loss in decades on worldwide general business. Page 9

FIAT, Italian motor vehicle group, forecast 8 per cent rise in group sales to L25,700bn ($13.2bn) this year. Chairman Giovanni Agnelli cited need for a Europe-wide joint venture agreement, such as that being sought in talks between Fiat and Ford Europe. Page 15

UPI, troubled U.S. newsagency, has received a conditional takeover offer of more than $14m from an unidentified investor group.

FUJITSU and Hitachi, Japan's two major computer makers, are to participate in a value-added network telecommunications joint venture with AT&T. Page 17

Yesterday's edition of the Financial Times was the first to have been printed in the U.S., as well as London and Frankfurt. The new printing centre in Bellmawr, New Jersey, is intended to improve distribution and increase circulation in North America.

Gorbachev reinforces his authority by promoting Shevardnadze

Gromyko leaves foreign ministry for presidency

BY PATRICK COCKBURN IN MOSCOW

MR ANDREI GROMYKO was elected President of the Soviet Union yesterday and was replaced after 28 years as Foreign Minister by Mr Eduard Shevardnadze, the leader of the Communist Party of the southern Soviet Republic of Georgia.

Mr Gromyko's departure from the foreign ministry reinforces the authority of Mr Mikhail Gorbachev, the Soviet leader, who is to meet President Reagan for a summit in Geneva from November 19 to 21.

The presidency of the Soviet Union is of largely symbolic authority, but Mr Gromyko who is 75, remains a member of the ruling Politburo and will continue to have an influence on foreign policy.

His successor as Foreign Minister, Mr Shevardnadze, 57, has been leader of the Georgian Communist Party since 1972. He has limited experience of foreign affairs but was elected to the Politburo on Monday, a rank which will give him authority in his new job.

Mr Shevardnadze is regarded as an energetic and outgoing man whose career has followed a similar course to that of Mr Gorbachev. They have known each other for many years and Mr Gorbachev's home area of Stavropol is close to Georgia.

Mr Eduard Shevardnadze

In his speech nominating Mr Gromyko for the presidency, Mr Gorbachev, whom many diplomats had expected to take the job himself, said that the role of General Secretary of the party needed to be separate from the head of state in present circumstances. Since 1977, all three of Mr Gorbachev's predecessors combined the two positions.

It is not clear what authority Mr Gromyko will have as President though the nominal powers of his position will be increased by his personal prestige and popularity within the Soviet Union as the man who conducted foreign policy for over a quarter of a century.

Starting his career as a professional diplomat, suddenly promoted to be Ambassador to Washington at the start of the last war, Mr Gromyko only became a member of the Politburo in 1973 – 16 years after he became Foreign Minister.

He had extensive authority over the formulation as well as the execution of foreign policy. A Soviet

Continued on Page 14

Gorbachev charts course; Consummate negotiator leaves, Page 2; Editorial comment, Page 12

Moscow and Washington set summit date

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

THE long-awaited summit meeting between President Ronald Reagan and Mr Mikhail Gorbachev, the Soviet leader, will take place in Geneva on November 19–21, U.S. officials said yesterday. The meeting will be the first U.S.-Soviet summit for Mr Reagan, who has had to deal with four Kremlin leaders since taking office in 1981.

Disclosure of the planned meeting comes at a time when senior U.S. officials are still describing U.S.-Soviet relations as "glacial" and without any sign of a breakthrough in the Geneva arms talks – the main point of contact between the two superpowers.

American officials yesterday differed over whether the meeting would be a full-scale summit, with a prepared agenda of decisions to be reached, or simply a "get-acquainted session" of the kind that Washington has suggested in the past. Experts in Washington said that the amount of progress likely to be made at the meeting would depend largely on the climate between Washington and Moscow established in the next four months.

Mr Reagan, the first U.S. President in half a century never to have met his Soviet counterpart, officially proposed a summit in the U.S. immediately after Mr Gorbachev took over as Soviet leader in March. The White House made no secret of Mr Reagan's preference for a Washington meeting, particularly as the last two summits not held on neutral ground had taken place in the Soviet Union.

U.S. officials said that the date and place for the meeting were finalised on Monday at a meeting in Washington between Mr George Shultz, the U.S. Secretary of State, and Mr Anatoly Dobrynin, the Soviet ambassador. The agreement would be formally announced in the near future, they said.

Washington had no immediate official comment on the elevation of Mr Gromyko to the Soviet Presidency. The move, however, was seen as strengthening Mr Gorbachev's overall position in the Soviet hierarchy, as well as his grip on foreign affairs.

Mr Gromyko, however, was expected by some U.S. officials to retain considerable influence in foreign affairs. They said that as President he would be able to pick the foreign policy issues on which he wanted to focus

Lebanon attacks U.S. plan to isolate airport

By Nora Boustany in Beirut and David Lennon in Tel Aviv

LEBANESE LEADERS yesterday angrily denounced U.S. plans to isolate Beirut airport, while Israel warned that it would not in future help to bring about the rescue of hostages by the release of "terrorists" in Israeli prisons.

Mr Rashid Karami, the Lebanese Prime Minister, asked what guilt was borne by Beirut when the incident which provoked the U.S. action involved an American airliner hijacked from a Greek airport.

He said that Washington was attempting to punish Lebanon "in spite of the release of the American hostages and in spite of the pledges made."

The majority of the hostages freed on Sunday after a 17-day ordeal which followed the hijacking of a TWA flight from Athens, were yesterday on their way back to the U.S. The most recent opinion poll in the U.S. has shown overwhelming public support for President Reagan's handling of the crisis, but there has been a cool response to the plan to shut Beirut airport.

General Moshe Levy, the Israeli Chief of Staff, said yesterday that 300 of the 735 mainly Shia prisoners held in Israeli jails would be transferred to Lebanon today or Thursday. Their release had been demanded by the hijackers of the TWA airliner and supported by the Lebanese Shia community. It is expected that the remainder will be freed within a week, although the U.S. and Israel continue to insist that no deal was struck with the hijackers.

Mr Yitzak Rabin, Israel's Defence Minister, accused governments of failing to take sufficient measures to protect their citizens. In a radio interview he said the TWA aircraft had been seized to apply pressure on Israel because it was an "easy target," unlike the heavily protected aircraft of the Israeli airline, El Al.

"It is evidently difficult for the Shias and other terrorists to seize an Israeli plane and use Israelis as hostages in order to secure something from Israel. They preferred an easier target: an American plane, American citizens, who are not deployed against such acts in the way that Israelis and Israeli institutions are," he said.

Mr Rabin warned that Israel would not again help to win the release of hostages by freeing prisoners in its jails. But he stressed that the freeing of the Shias had been planned before the hijack took

Continued on Page 14

Despair over threat to airport, Page 3; Welcome for hostages, Page 6

Bonn set for fight over economic subsidy cuts

BY RUPERT CORNWELL IN BONN

THE WEST German Government yesterday outlined plans for a steady reduction in federal subsidies over the next four years as proof of its determination to roll back the state's involvement in the economy and create more room for tax cuts.

The scheduled cuts in subsidies were disclosed in documents accompanying the official draft budget for next year, but Herr Gerhard Stoltenberg, the Finance Minister, admitted that the goals would not be achieved without a tough fight.

According to the ministry, subsidies paid by central Government are likely – contrary to intentions – to increase this year to DM 14.5bn ($4.07bn) from DM 13.6bn in 1984. Thereafter, however, they should fall to DM 13.5bn next year and progressively to DM 11.1bn in 1989.

The biggest subsidy cuts stem largely from factors beyond the Government's direct control. The strength of the dollar has permitted a sharp drop in coking coal payments, while in accordance with EEC regulations no further state aid will be available to the West German steel industry.

Herr Stoltenberg made clear that this rule would also apply to Arbed Saarstahl, the Saarland steel concern which has long been on the brink of bankruptcy and which is seeking a further DM 200m from various sources to make ends meet in 1985.

Bonn would only be prepared to co-operate in a debt-reduction scheme agreed between the company and its bankers. Without such a scheme, Herr Stoltenberg said, Arbed was probably not a viable long-term proposition.

The minister confirmed that the Government intended to continue its modest privatisation programme next year. But he gave no figures of what might be raised – nor of which companies were involved. Powerful opposition from Herr Franz Josef Strauss, the Bavarian premier, has so far prevented Bonn from pushing through its aim of cutting its stake in Lufthansa, the national airline, from 79 per cent to 55 per cent.

In presenting the budget, which envisages a rise of just 2.4 per cent in total outlays to DM 264bn, Herr Stoltenberg made clear yet again that he would not be deflected by calls for reflationary job-creating measures from his cautious strategy, aimed above all at reducing the state's borrowing requirement.

As expected, the only provisions against unemployment, currently standing at almost 2.2m, are directed at the building industry. These include higher depreciation allowances for the sector, a tripling to DM 1bn of federal aid for urban renewal programme, and a DM 4bn increase in soft loans from the Kreditanstalt für Wiederaufbau agency available to smaller companies and local authorities.

Exports boost growth, Page 2

UK to axe capital gains tax on gilts

BY CLIVE WOLMAN IN LONDON

BRITAIN is to abolish capital gains tax on government securities and corporate bonds from July 2 of next year.

The UK Treasury expects the change to result in a "significant increase in the long-term yield" from capital gains tax (CGT) because institutions will no longer be able to use capital losses on short-term holdings of government securities (gilts) to offset gains on other investments.

The announcement by Mr Nigel Lawson, Chancellor of the Exchequer, created confusion in the gilts market yesterday afternoon. Leading jobbers (market-makers) suspended trading for 30 minutes.

The prices of index-linked gilts rose by ½ to ¾ of a point, but the higher coupon stocks, after being marked up slightly, fell back again to their original prices.

The main victims of the abolition of the tax on gilts will be insurance companies. They are the largest group of gilt investors, owning nearly 30 per cent of outstanding stock. For every one of the last 16 years, they have been able to cut their total CGT bill by generating capital losses on their holdings of gilts.

The technique exploited the exemption from CGT (imposed at a rate of 30 per cent) which has been granted since 1969 to gilts held for more than a year. Insurance companies would systematically sell all those gilts the prices of which had fallen after no more than 364 days to create a capital loss.

This would then be offset against other capital gains, particularly on

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Lex, Page 14

GEC lifts profits 8% to £725m

BY GUY DE JONQUIERES IN LONDON

BRITAIN'S General Electric Company (GEC), the UK's largest non-oil industrial group, yesterday reported that its pre-tax profits rose 8 per cent to £725m ($943m) in the year to March 31. Turnover increased 6.7 per cent to £5.98bn.

The results, which follow sharp falls in the share prices of most leading UK electronics and electrical companies in the past week, were at the lower end of most analysts' forecasts. GEC's share price closed unchanged yesterday at 166p.

Pre-tax income from GEC's cash mountain, including revaluation adjustments on foreign currency holdings, rose by 25 per cent to £176m. Pre-tax profits from its mainstream industrial businesses grew by 5.4 per cent to £531m.

The value of the cash mountain fell during the year from £1.55bn to £1.41bn. The drop largely reflected the £156m which GEC spent to buy back about 73m of its own shares at an average price of almost 213p a share.

GEC is recommending a final dividend of 2.65p a share, bringing the payment for the full year to 4p, up from 3.45p last year. Earnings a share were 14.9p, against 14.2p, and 15.2p (15p) after the inclusion of extraordinary items.

The electronic systems and components division, which includes most of GEC's large defence business, was once again the group's single largest source of profits. Pre-tax profits increased to £235m (£197m) on turnover of £1.86bn (£1.58bn).

Pre-tax profits on telecommunications and business systems fell to £81m (£93m) on turnover of £746m (£735m). Most of the decline was because of the ending of the highly profitable production of older electromechanical telephone exchanges, which are being superseded by the fully electronic System X.

GEC's small computer subsidiary also incurred a write-off. But there was a sharp improvement in the performance of A.B. Dick, its U.S. office equipment subsidiary, which moved out of losses in 1983-84.

Problems with high-voltage switchgear reduced pre-tax profits at GEC's electrical equipment division to £42m (£49m) and profits in automation and control also fell to £48m (£52m).

Results from power generation, medical equipment, consumer products and distribution and trading were all better than the previous year.

GEC's exports from the UK rose by only £25m to £1.23bn although export orders received increased to £1.16bn (£887m).

Lex, Page 14; Details, Page 16

CONTENTS

Patrick Cockburn in Moscow and **David Buchan** in London examine the end of the Gromyko era in Soviet foreign affairs

Gorbachev and his men chart their foreign course

"THEY ARE all Gorbachev's men now," said a diplomat in the gallery of the Supreme Soviet ss he heard the announcement of Mr Andrei Gromyko's elevation to the Presidency and his replacement after 28 years as Foreign Minister by Mr Edusrd Shevardnsdze, the Communist Party leader in Georgia.

Mr Gromyko, 76 next month, retains some anthority and much prestige hut he has lost the unique power, dating from the early 1970s, to formulate and execute much of Soviet foreign policy by himself. The Foreign Ministry will no longer be a semi-independent fiefdom.

This would happen even if Mr Shevardnadze had more experience in foreign affairs. The independent authority of Mr Gromyko snd Msrshsl Dmitri Ustinov, the Defence Minister who died last year, was rooted in early promotion by Stalin, consolidated during the war and much increased as President Brezhnev's health began to fail after 1975.

In the new climate in Moscow, Mr Gromyko's role as a one-man institution was not sustainable. This makes somewhat irrelevant the question, posed by many diplomats yesterday, about wbether the Soviet Union's Foreign Minister since 1957 had been kicked upstairs or will retain substantial powers over Soviet foreign relations.

From the moment Mr Gorbachev became general secretary of the Communist Party last March, he has played a leading role in foreign policy. Immediately after President Chernenko's funeral, he began a long series of meetings with foreign leaders, and Mr Gromyko's autbority was already diminishing.

Mr Shevardnadze is likely to be mucb more of a traditional foreign minister: the executor, not the formulator, of policy. Mr Gromyko, as President and a member of the ruling 13-member Politburo, remains important but it is unlikely tbat Mr Shevardnadze will allow the substance of his authority to be pre-empted by his predecessor.

It is also significant that Mr Shevardnadze is a member of tbe Politburo, in contrast to Mr Gromyko who only joined the ruling body in 1973, 16 years after be took over the Foreign Ministry.

Eduard Amvrosievich Shevardnadze is 57 years oid, he was born in *Mamati*, Georgia, on January 25 1928.

He attended Communist party schools in Georgia and graduated in history in 1959 or 1960 from the Kutaisi Pedagogical Institute.

***1948:* Became a party member.**

1953-56: First Secretary, Kntaisi Georgian Komsomol (Communist yonth movement).

1963-64: First Secretary, *Pervomaisky district in* Tbllisl city Georgian Communist Party.

1966: Full member, Central Committee, Georgian Communist Party.

1972: First Secretary and *Full member, Politburo, Cen*tral Committee, Georgian Communist Party.

1976: Full member, Central Committee, Communist Party of the Soviet Union.

1978: Candidate memher, Polithuro, the *Central Committee of the* Communist Party of the Soviet Union.

Travels ahroad: Algeria (1964), Austria (1974), Brazil (1980), Bulgaria (1974), Czechoslovakia (1981), Hungary *(1975, 1981)*, India (1982), Portugal (1979, 1983), Tunisia (1960).

Mr Shevardnadze's career is thought to have advanced thanks to his relative success in establishing "exemplary social order" within the Georgian Socialist Soviet Republic—that is stamping out bribery, black marketeering, and protectionism.

Does the selection of a new minister signify a change in Soviet foreign policy? The basic tenets are likely to remain tbe same but there will be some changes in emphasis.

Despite the announcement yesterday of a summit between Mr Gorbacbev and President Ronald Reagan to be beld in Geneva in November, there is an undercurrent of feeling in Moscow that amicable relations with the U.S. on the lines of détente in the 1970s are unlikely to be restored even after President Reagan ends his term in office. The brief amity between the super powers is seen as sn episode rather than the norm.

The relationship with the U.S. remains at the centre of Soviet foreign policy, and it was on this topic thst Mr Gromyko was for so many years the Kremlin's expert. But Mr Gorbachev and the men close to him have somewhat changed the emphasis.

Since March, Mr Gorhachev has given priority to consolidating Moscow's relations with its allies, notably in Eastern Europe. Mr Le Duan, leader of Vietnam, received a particularly cordial welcome last weekend when he paid an officisl visit.

Greater emphasis is also being placed on the repair of relations with China, considersbly warmer in tone (the Chinese have started calling Mr Gorbachev "comrade") in recent months tbough without any real change in substance. The first Chinese Politburo member to visit Moscow for many years arrives later this month.

On no front does the Kremlin sound as if it felt uoder pressure. The Soviet leaders are not as nervoua of President Reagan as they were during his first three years in office. Despite the escalations of defence budgets and rhetoric, there is little conflict between the super powers or their allies.

There is real fear that America's Strategic Defence Initiative migbt shift the strategic balance against tbe Soviet Union. It might also lead to sn escalation in Soviet defence costs, eating up capital investment that Mr Gorbachev wants for the refurbishment of Soviet industry.

Diplomats in Moscow also note that Star Wars, since President Reagan announced the project in 1983, has presented the Soviet Union with immediate foreign policy gains. It bas divided the West Europeans from tbe U.S. more than Pershing and Cruise missiles, wbile the military potential of tbe scheme remains hypothetical and long term.

So Mr Gorbachev is in a relatively strong diplomatic position as be looks towards the Geneva summit with President Reagan. It is clear that, wbatever his declarations to the Supreme Soviet yesterday about the need for the general secretary of the Party to concentrate on the economy, that the central role in Soviet foreign policy belong to him.

Twenty-eight years in Mr Andrei Gromyko's career separate the two pictnres above. On tbe ieft, he is seen witb Mr Nikita Khrnscbev, then Communist party leader, in 1956, the year hefore be becsme Foreign Minister. On the right, he is pictured *last year with President Ronald Reagan at the White House* during a visit to the United States

A consummate negotiator leaves the table

YESTERDAY'S nomination of Mr Andrei Gromyko as president of the Soviet Union moves one of the omst fsmilisr diplomatic landmarks of the opst-war period out of the day-to-day running of Soviet foreign *policy*.

The Gromyko era in foreign policy, wbich for a parallel one must probably reach back to Talleyrand in early 19th century France, will not necessarily close this week. Just as he only really secured his hold on Soviet foreign policy-making several years after he became Foreign Minister in 1957, so he is likely to make his enormous foreign affairs experience felt—both as President and a senior politburo member—for some time on his diplomatically unversed successor, Mr Eduard Shevardnsdze.

Yet, if separated from the job of party general secretary—as it now is once sgain—the post of President, or "cbairmao of the presidium of the Supreme Soviet," by itself, need carry only the largely ceremonial duties of meeting and greeting foreign beads of state.

It is thus a reward for a man wbo has advised every Soviet leader except Lenin, conferred with every U.S. President since Roosevelt, a man wbo belped sbape the post-war world and found the United Nations, and wbo then played a major part in negotiating the Soviet Union's superpower status and arms control accords with the U.S.

Mr Gromyko is said to have let slip on a recent trip to *Helsinki* that be was tiring of the endless travel involved in his past 28 years as Foreign Minister. Yet, during that time and even before, his has been the Soviet visage most frequently presented to the world — *usually* unyielding, sometimes sardonic and almost always poker-faced.

Early on, as Soviet ambassador to the UN in 1946-48, be earned the sobriquet Mr. Nyet for the many Securily Council resolutions he vetoed on Moscow's behalf. He has also been dubbed "Grim Grom" (*grom* being the Russian for thunder) for bis dour style, alleviated by only the odd wisecrack, often in the good, though heavily accented, English he learoed in his 1943-46 stint as ambassador to Washington.

Public jibe

For bis first 16 years as Foreign Minister, it is probsble that Mr Gromyko was more executor than formulator of Soviet foreign policy. Certainly, Mr Nikita Khrushchev, the first *party general secretary* he served as Foreign Minister, treated bim as such, making the public jibe at the unfortunate Gromyko that if be ordered his foreign minister to take down bis trousers and sit on a block of ice, he would do so and sit there for a month. But by 1973, when Mr Gromyko entered the politburo, the policy-making inner circle of Soviet power, this surely changed.

The increased pace of Soviet diplomacy in the 1970s, with the Salt arms negotiations and detente with the West, followed in the early 1980s hy the international rows over the Soviet invasion of Afgbsnistan and the condoning, and perhaps *encouragement*, of martial law in Poland, the collapse of detente and the Reagan Administration's more confrontational policies, pushed Mr Gromyko ever further into the limelight.

The ill health of successive leaders, Brezhoev, Andropov, Chernenko, also accentuated their dependence on their veteran Foreign Minister, to the extent that by 1983-84 some Western analysts wondered whether Mr Gromyko was not really running Soviet foreign policy solo.

Whether Mr Gromyko was hard or soft, inclined towards confrontation or conciliation, on relations with the U.S. and the West was never really clear in the Soviet collective form of government. But certainly he regarded Esst-West relations as Moscow's most important foreign policy concern.

Curiously, for a Foreign Minister of *such* lengthy tenure, Mr Gromyko never visited Latin America or sub-Saharan Africa. His closest subordinates at the ministry were all specialists in U.S. or European affairs. It is thus plausible that bis angry denunciations of the U.S. in recent years were in part bitterness at President Reagan destroying, in his eyes, what be had believed to be his main achievement — detente between tbe superpowers.

Mr Gromyko's translation to the presidency removes a consumate negotiator from the bargaining table, though his influence may still be felt behind the scenes. Dr Henry Kissinger summed up from his own experience the Gromyko spproach as "patiently accumulated marginal gains until they amount to a major difference" and a reliance "on the restlessness of his opposite number to extract otherwise unachievable advantages." *In* this way was Mr Gromyko able to exploit the short-run political pressures that afflict Western leaders much more tban Soviet.

Steady rise

This patience, coupled with the self-effacement tbat led him once to tell a Westerner in search of personal anecdotes: "My personality does not interest me," served Mr Gromyko well in his rise in the Soviet hierarchy. Tbis rise was steady, part from a brief demotion in 1952-3 from deputy foreign minister to be ambassador to London in 1952-3 (after, it is said, he had been reprimanded for building a dacha at government expense).

But the remarkable aspect of Mr Gromyko, in the diplomatic *service from* 1939 until tbis week is that be never developed a political base among key Soviet institutions—the party, tbe military, the KGB or heavy industry. Instead, he became an institution bimself.

Greece to verify Albanian frontier

ATHENS – a military delegation from Albania opened talks in Athens yesterday with Greek officials on verifying the border between the two countries to prevent frontier incidents, n government spokesman said.

The spokesman, Mr Dimitri Maroudas, said the middle-ranking Albanian officers would discuss how to replace 40-year-old anti-tank obstacles that serve as border markers along the mountainous 100-mile frontier.

"Re-marking the border will greatly assist in preventing frontier incidents," said Mr Maroudas.

Last November a Greek hunter was shot dead by an Albanian border patrol after straying across the frontier by mistake.

Although the border is heavily guarded on the Albanian side, abont a dozen fugitives from the self-isolated Stalinist state cross into Greece every year.

A foreign office official said talks on defining the continental shelf between Albania and the Greek island of Corfu were planned.

"All these talks come within the framework of normalising relations with Albania," he said.

Greece's Socialist Government has worked hard to boost improve conditions for the isolated ethnic Greek minority of over 250,000.

The military delegation's arrival marked the first official Albanian visit to Greece since Mr Ramiz Alia took over as leader last April after the death of Mr Enver Hoxha.

Exports boost growth in chemicals

By John Davies in Frankfurt

THE WEST GERMAN chemical industry has shown further study growth, boosted especially by export demand.

The sector, which employs 552,000 people, has been among the main contributors to the country's moderate economic growth over the past two and a half years.

Although production has already reached a high level, output inthe first half of this year was 3 per cent increas above the level of the same period last year. Since its setback in 1982, the industry has made a rapid recovery with a 7.3 per cent increase in output in 1983 and 5.2 per cent last year.

Professor Heinz-Gerhard Franck, the president of the Chemical Industry Association, said yesterday that demand within West Germany was slack earlier this year but had picked up since April because of a slight rise in consumer spending and an increasing tendency for businesses to invest.

Sales revenue in the first half was 7 per cent ahead of the same period last year. Export revenue was up as much as 10 per cent and domestic sales were up 4 per cent.

Prof Franck said that West German chemical companies would step up their investment by 9 per cent this year to about DM 7.6bn (£1.9bn).. A greater percentage than in previous years would be spent on building extra capacity

Business has been good for plastics and synthetic fibres, he said, but sales of agri-chemicals were hit by the hard winter and products for use in the ailing huilding industry were not doing so well.

Bush backs air boycott of Lebanon

By Our Paris Staff

MR GEORGE BUSH, the U.S. Vice-President, yesterday defended Washington's efforts to organise an international boycott of Lebanon by air traffic.

He did not think the step would endanger the U.S. and French nationals still being held hostage in Beirut, he stated.

Speaking at a news conference in Paris after meeting President François Mitterrand and senior French ministers, Mr Bush justified the U.S. Administration's move to end flights between New York and Beirut primarily on the gronnds of ensuring passenger safety.

"We don't want Americans to fly in to airports whicb are less than secure—where travellers are offered less tban the fullest protection against hijacking," he said.

The spectacle of the TWA aircraft being hijacked at one gate of the Lebanese airport while "commercial traffic was going in through the next door" was "not the way a civil airport should be run," he declared.

Mr Bush stressed that the subject of an international boycott of Beirut had not been raised in talks with French ministers. He did discuss "international collaboratioo" in efforts to fight terrorism, without elaboroting on any specific proposals.

Mr Bush, who emphasised the "warmth" of his talks in Paris, is however, not likely to see the U.S. action followed up by similar steps from Paris.

Air France, in common with other Western airlines has for the moment suspended flights to Beirut.

But the French Government—which owns 28 per cent of the shares in Middle East Airlines—seemed little inclined to block MEA's landing rights in Paris, with officials stressing rather the more general efforts France was making to combat air hijacking.

French public opinion remains pre-occupied with the fate of four French citizens captured in Beirut in March and May.

Mr Bush said again yesterday that no "deal" had been struck with the kidnappers over the exchange of hostages against Shi'ites held by Israel.

Nonetheless, in France it is widely believed that the French hostages will not be released until the Shi'ite prisoners have crossed back into Lebanon.

Beirut despairs, Page 3

EEC ministers to discuss five lines of research under Eureka

BY DAVID MARSH IN PARIS

FRANCS HAS come up with a list of five sets of high technology projects which European ministers are to discuss bere later this month to put flesh on the bones of the Eureka researcb programme.

Outlined in a document produced by the government-sponsored technology centre Cesta, and titled somewbat grandiously "The Technological Renaissance of Europe," the projects group together proposals *for joint efforts* in the information technology, robotics, communication, biotechnology and new materials sectors.

Research Ministry officials empbasise that the ministerial meeting, provisionally set for July 17, to which technology ministers and perbaps also foreign ministers have been invited, would aim to come up with ideas for co-operation on a "pragmatic" basis.

The French idea to launcb a full-scale ministerial session rather tban a gathering of experts has raised some concern with the British Goveroment that exaggerated expectations may be built up over wbat the meeting can achieve.

French officials, however, say a high level meeting is necessary to give full official backing to clear projects—in whicb leading European companies have already shown interest—and to map out a timetable for work.

Mr Bush: "Eureka and SDI not incompatible"

The French-inspired Eureka programme was also endorsed yesterday by Mr George Bush, the *U.S. Vice-President*. Speaking in Paris after talks with President Francoic Mitterrand, he said initial American ideas that Eureka was a "counter" to President Ronald Reagan's Strategic Defence Initiative (SDI) were unfounded.

Stressting that "there is no incompatibility between Eureka and SDI." Mr Bush said, after discussing the two programmes in Psris, that "there are less differences (between the U.S. and France over SDI) tban might have heen felt immediately after the Bonn summit."

French officials say specific funding of Eureka projects is unlikely to be decided at the July 17 meeting. Finance, from a mixture of government, company and banking sources, would be set on a case-by-case basis.

The main areas of research, together with possible industrial partners from the 18 European countries who have been invited to the Paris meeting, have been set down by Cesta under the prosaic titles of the Euromatique, Eurobot, Eurocom, and Euromat programmes.

As a further sign of British interest in French co-operation, officials from the two countries *are to meet in London next week* to pursue bilateral talks in areas like electronics and computers.

Polish stoppages report denied

BY CHRISTOPHER BOBINSKI IN WARSAW

THE POLISH Government said yesterday that industry worked normally on Monday and emphatically denied reports by the banned Solidarity union of isolated stoppages in protest at meat price rises.

Solidarity had called for a one-hour strike in protest against a 10–15 per cent increase which came *into force on July 1*.

Mr Jerzy Urban, the government spokesman, did, however, admit that attempts to initiate strike action had occurred at the Ursus tractor factory outside Warsaw; the Lenin shipyard in Gdansk and at an agricultural equipment plant in Slupsk in the north. A handful of workers were involved but they soon abandoned the attempt to encourage others to strike, Mr Urban said.

He denied Solidarity reports of much larger *protest actions* at the Lenin shipyard and stoppages in five departments at the Ursus tractor factory.

There had also been reports of protests at the Dolmel works in Wroclaw and the Piklor television tube factory outside Warsaw. Union sources also reported that four departments had protested at the Warsaw steel works, but Mr Urban said that stink bombs had merely been set off in a number of places.

Mr Urban added that at present the authorities were holding 195 political prisoners of whom 20 had been sentenced and the rest were awaiting trial.

Diplomats implicated in 'plot'

ROME – Turkish gunman Mehmet Ali Agca implicated Soviet and Bulgarian diplomats yesterday in an alleged plot to kill the Pope, but admitted under questioning that some of his evidence was contradictory.

During one outburst in court, Agca asserted be was both a criminal and Jesus Christ, and asked why no Christian had committed suicide af*ter the attempted assassination of* the Pope in 1981.

Agca, 27, speaking as a witness in the sixth week of a Rome assize court trial, reaffirmed that a first secretary at the Soviet embassy in Sofia had ordered the Pope's murder for DM 3m ($984,000).

He said he had met the Soviet diplomat, whom he identified as Malenkov, at a meeting in the Bulgarian capital in July 1980, in the company of Turkish defendant Bekir Celenk.

*Agca said the three men had dis*cussed a plan to kill the Pope and attack military targets in Western countries, but it was Bulgarian diplomat Vassilev Kolev in Rome who supplied him with details about the Pope's weekly routine.

Kolev, one of seven defendants accused of conspiring to kill the Pope, suggested when the attack should be made, Agca said.

The Turkish witness, speaking during the sixth week of the trial, exclaimed that "after the attack on the Pope, out of shame and suffering seven people committed suicide in Mexico."

AP

Court move in Spanish 'Watergate'

By Tom Burns in Madrid

THE SO-CALLED Spanish Watergate, concerning alleged police surveillance of the Alianza Popular opposition party, could seriously embarrass the Socialist government of Sr Felipe Gonzalez following a decision by a minor judge to pass to the Supreme Court all his investigations into the affair.

His action indicates that Judge Jose Maria Vazquez Honrubia has uncovered sufficient evidence of possible illegality to merit pursuing the case. More importantly, transfer of the case to the Supreme Court paves the way for possible subpoenas of *senior officials*, members of Parliament and government ministers.

Under Spanish criminal law, only the Supreme Court has powers to serve writs on officials holding director general rank, on MPs and on cabinet members.

The development, gleefully greeted by tbe opposition, comes at a particularly awkward moment for Sr Gonzalez who is dne to announce government changes later this week.

Judge Vazqnez Honrubia has been taking evidence from Deputy Prime Minister Alfonso Guerra, Sr Jose Barrionuevo, the Interior Minister, Sr Rafael del Rio, the chief of police, among others, following allegations by Alianza Popular of police spies at its party headquarters.

The *kernel* of the allegations is that Sr Guerra, who is also the Socialist party's chief electoral tactician, masterminded a complex surveillance of the Conservative opposition, which included telephone tapping, in *order* to obtain confidential party documents. The judge said in a statement that the matter was one of "extraordinary delicacy."

In a heated parliamentary debate at the end of *May* Sr Barrionuevo swore repeatedly "on his honour" that be personally had not authorised any illegal activities. Alianza Popular lawyers subsequently initiated a civil action before Judge Vazquez Honrubia.

Spanish oil agency

Spain unveils a new oil marketing agency today to comply with European Community anti-monopoly rules but multinational oil groups claim it is still a monopoly system, reports Reuter.

Hungary's pessimism grows over economy

BY LESLIE COLITT IN BERLIN

HUNGARY'S COMMUNIST leaders are voicing increasingly pessimistic views on the performance of the economy and the prospects for it.

Mr Jozef Marjai, Deputy Prime Minister responsible for the economy, told trade union officials *recently* that a decline in industrial production in the first five months of this year was largely the result of sbortfalls in April and May.

Until recently, last winter's harsh weather was given as the cause for the drop in output.

A leading Hungarian political weekly, Magyarorszag, noted that unfavourable weather conditions could no longer be blamed for the fall in production. It was the result, *instead*, of "structural difficulties" which hampered recovery and adaptation to market conditions.

Mr Marjai noted that from January to June, export earnings in hard currency were "significantly smaller" while imports were considerably bigher than planned.

"This promises a much smaller foreign trade surplus by tbe end of this year," he said, adding that it was an "impossible situation."

Hungary bad planned for a $700m (£538m) trade surplus this year after $600m in 1984.

Mr Marjai said that even if agriculture expanded, it could not make up "what is missing in industry." Althougb agriculture was currently meeting the plan targets, there were "unfavourable phenomena" such as worsening export prices

Mr Tibor Vamos, a Hungarian technology specialist, said the *shortage of hard currency since* 1978 and the Western embargo on certain bigh-technology exports meant the technical level of Hungarian industry had fallen below that of five years ago.

Pact with Austria on jail terms breaks new ground

BY OUR BERLIN CORRESPONDENT

HUNGARY HAS concluded an agreement with Austria under which citizens of either country convicted of a crime in the other will be permitted to serve their sentences in their native country. It is the first such accord between s Warsaw Psct member and a non-Communist country, but does not cover political prisoners.

Dr Tamas Ban, hesd of the internationsl law department of the Hungarian Justice Ministry, said it was especially significant that Austria accepted "without reservation" tbe criminal procedures and sentences of Hungarian courts

The agreement was a result of the enormous increase in tourism between the two countries. International legal aid and extradition agreements, he said, were incressingly being supplemented by accords on mutual execution of sentences.

Dr Ban said there were considerable differences in the way Hungary and Austria viewed foreign exchange, tax and customs offences. This problem was surmounted, however, as buth countries had similar legal provisions. They pledged to execute the sentences passed on their citizens in the other country if their own criminal code had similar offences.

Europe space link-up to boost satellite business

BY PAUL CHEESERIGHT IN BRUSSELS

THE EUROPEAN Space Agency and the European commissions are seeking to boost the communications satellite husiness hy offering a aervice for the high-speed digital transmission of long dsta messages.

Called Apollo, the new service is designed to provide facilities for a few senders, such as the Officisl Journal of the EEC, the British *Library* Lending Division and the German Patent Office, to transmit documents to clients with receiving stations.

Technology is being provided by the European Space Agency and co-ordination hy the European Commission. Their combined investment is Ecu 5.4m (£3m) over two years. The satellite to he used is Eutelsat-1, which was placed in orbit last August.

The aim is to complement existing narrowband land networks. The Commission is expected to withdraw once the service is established.

Aer Lingus 'beats strike'

By Our Dublin Correspondent

AER LINGUS, the Irish state airline, said yesterday that it had succeeded in carrying 75 per cent of its normal passenger load using leased-in aircraft to circumvent an all-out strike by its 250 pilots.

The pilots are seeking a fresh wages deal but the company cannot begin talks because the Government has yet to set guidelines for the negotiations.

The airline has leased 14 aircraft and crews from six countries to maintain its schedules in the face of the pilot's four-day action, at a cost of I£4m ($4.1m).

Aer Lingus returned n profit last year of I£8m after three years in the red. Profit figures for 1985 are likely to be badly hit by the dispute

FINANCIAL TIMES

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Israel hit by general strike called against austerity measures

BY DAVID LENNON IN TEL AVIV

A GENERAL strike paralysed the Israeli economy yesterday in protest against the new economic austerity programme which Mr Shimon Peres, the Prime Minister, said was essential "to prevent an actual collapse" of the economy.

The new measures adopted by the Cabinet on Monday include budget cuts, a devaluation, massive price increases, and a compulsory three-month wage and price freeze. The unions complained that the main burden of the economic recovery programme falls on the shoulders of wage earners.

The powerful Histadrut trades union federation warned that, though the general strike would end at 6 am today, selective strike action would continue during the week to press demand that the Government negotiate with the unions, rather than impose a wage freeze through emergency regulations.

A Histadrut spokesman said yesterday that, if the Government tried to implement the proposed wage cuts, the unions would "take individual action as they see fit," a clear warning that more strikes can be expected.

Mr Peres expressed sympathy for the position of the unions, but said that "we had to adopt acute measures because there was no time left." If the new austerity programme had not been imposed, Israel would have run out of foreign currency and "we would have had to move to a regime of rationing because we wouldn't have money for food or spare parts."

The Premier noted that "inflation began skyrocketing again . . . and we reached a situation in which either we strike at inflation or it strikes at us."

After being brought down through voluntary wage and price agreements from a rate of over 20 per cent a month last autumn, to single figures earlier this year, inflation is now back to 20 per cent a month and more.

However, Mr Peres's belief that the new measures will bring inflation down to a "a normal level" is not shared by all his Cabinet colleagues, seven of whom voted against.

The most strident in his criticism was Mr David Levy, a deputy premier and Housing Minister. He described the government action as "irreponsible" and the programme as "unjust." Mr Levy added: "I do not think that it will reduce inflation: I think we are entering an inflationary spiral."

Peking waives some oil royalties in second round

BY MAURICE SAMUELSON

CHINA is trying to encourage continued overseas investment in her offshore oil industry by waiving royalties on small fields developed in a second round of international bidding.

There will be no royalties on wells producing less than 1m tonnes a year. Chen Bingqian, of the China National Offshore Oil Corporation, announced in Peking.

The Chinese Government normally collects a 12.5 per cent royalty of annual production. But terms for second-round contracts have been relaxed because of the lack of major finds in the first round launched in 1982.

Despite $1bn (£770m) of overseas investment in the offshore search since 1980, few commercial discoveries have been made. Atlantic Richfield has made a significant natural gas find while oil has been discovered by France's Total and a Japanese concern.

Chen was speaking following the closure of Monday's deadline for bids to explore second-round blocks in the Pearl River Mouth Basin and the South Yellow Sea. The bidders comprise 23 companies, from 10 countries, grouped in nine consortia.

They include four British companies—British Petroleum, Shell Exploration, Cluff Oil and Tricentrol.

ANC blames S. African agents for Lusaka raid

By Patti Waldmeir in Lusaka

THE African National Congress (ANC), the leading exiled nationalist group opposing white rule in South Africa, has said South African agents were responsible for a bomb blast late Monday night which damaged the organisation's headquarters in Lusaka. There were no casualties.

The raid took place against a background of South African military incursions into black-ruled states in the region, including an attack on alleged ANC bases in the Botswana capital Gaborone three weeks ago in which 16 people died, and a weekend raid into southern Angola in which South Africa said it killed guerrillas of the Namibian guerrilla movement Swapo.

It came just over a week after the ANC ended what it called a "council of war" conference in the Zambian mining town of Kabwe, at which the organisation hinted at a possible increase in civilian casualties in its war against South Africa, noting that it would no longer be possible to avoid "soft targets" such as civilians in the fighting.

An ANC statement said the blast destroyed a steel gate outside the ANC's administrative offices in central Lusaka and shattered a number of windows. ANC guards on the premises fired on the attackers as they fled after placing the bombs.

The raid was being interpreted in Lusaka as a warning to the Zambian Government—which has maintained its firm support of the ANC at a time when South African pressure has forced other black-ruled states to expel ANC members—that Lusaka could be the next target of a Botswana-type raid.

AP adds: A South African military spokesman, declining to be named, denied any South African involvement in the raid.

Urenco

Contrary to a report in yesterday's Financial Times, Urenco, the company controlled by the British, Dutch and West German governments, does not enrich uranium for military purposes.

Nora Boustany examines reaction in Lebanon to possible sanctions by Washington

Beirut despairs as airport link is threatened

THE THREAT by President Ronald Reagan to put Beirut international airport out of action has filled the Lebanese with despair and prompted official indignation.

The shadowy underground Islamic Jihad organisation has threatened Washington with "nightmare attacks" if it retaliates over the TWA hijacking, and Mr Rashid Karami, Lebanon's Prime Minister, said he was considering ways of countering the measures ordered by President Reagan.

"Where is Beirut airport to blame in the hijacking of a TWA plane from an airport in Greece?" the Prime Minister asked. Referring to U.S. pledges not to take reprisals, he questioned Washington's reversal.

'Where is Beirut airport to blame in the hijacking of a TWA plane from an airport in Greece,' asks Mr Rashid Karami (right), Prime Minister of Lebanon who, with other Lebanese officials, has reacted angrily to President Reagan's airport embargo

When the release of 39 American passengers and crew was delayed last Saturday, the U.S. declared support for "Lebanon, its Government, its stability and security," a statement which was perceived as a guarantee against retribution.

On Monday, however, Washington ordered legal and diplomatic action to isolate the airport, Lebanon's only international airport.

The move includes a ban on Middle East Airlines, Lebanon's flag passenger airline, and Trans Mediterranean Airways, Lebanon's cargo carrier, from flights to the U.S. Britain was yesterday reported to be considering similar measures.

MEA and TMS, which together employ at least 7,000 people, have suffered tremendously in the past 10 years and run up huge losses because of Beirut airport closures and continued political instability. Mr Selim Salam, MEA chairman, yesterday told reporters that President Reagan's move has already prohibited the airline's twice weekly flights to the U.S.

Services at Beirut airport have been severely affected by recurrent fighting and the infiltration of militia groups into its compound. However, plans for improvement and refurbishing have continued intermittently.

Beirut airport used to be the busiest in the Middle East, with daily connecting flights to the Arab Gulf, Europe, Africa and America. The hazards of landing and taking off from its strip framed by the Mediterranean on one side and a range of Druze-controlled hills from the south-east have led to the suspension of flights by a number of international airlines.

Senior airport officials have reacted angrily to U.S. criticism and the Administration's contemplated sanctions against Beirut airport; they noted that other airports have similar security problems. One senior U.S. State Department official said on Monday that some 15 per cent of international hijackings began, passed through or ended at Beirut airport.

Mr Khaled Saah, deputy director of the airport who has spent many sleepless nights reasoning with hijackers holding passengers hostage, complained that similar incidents occur elsewhere. "More than 300 people died after the Air India bomb, and there were the bombs at Tokyo and Madrid."

The Lebanese Government initially tried to prevent the commandeered TWA airliner seized by Hezbollah Shi'ite activists on a flight between Athens and Rome from landing in Beirut, but relented when it sensed the lives of the passengers and crew were in jeopardy.

"International law prevents anyone from closing airports to stop a plane landing, especially when you know there is no fuel on board and the passengers are in danger."

Former President Camille Chamoun, a Maronite Christian, said there had been killing, kidnappings and injuries of Americans in Latin America, Spain and West Germany, yet Washington did not take action against those states.

Mr Akef Haidar, chief of the Shi'ite Amal movement's politburo, said America wanted to punish a whole people and country for the actions of one "small group." Mr Nabih Berri, leader of the Amal militia, took over negotiations on behalf of the hi-jackers early on in the June 14 hi-jacking to seek the release of some 700 Lebanese prisoners from an Israeli prison.

The Islamic Jihad, a shadowy organisation which has claimed credit for a series of murderous attacks on Western and American targets in Lebanon, cautioned that any American retaliation would make of the group "a nightmare that pursues them (the U.S. Administration) whereever they may be."

Christian and Moslem leaders alike have protested at President Reagan's planned moves. Mr Suleiman Franjieh, also a former Lebanese President, accused the U.S. President of being the first to encourage terrorism because after the Israeli invasion he gave the Israeli Government $755m (£580m).

Despite the dismay expressed by a variety of Lebanese officials and popular apprehension about a shutdown of the airport, no one here denies that conditions at the airport have become intolerable.

Col Yassin Sweid, security chief at Beirut airport, refuses to go to his office there in protest at the lawlessness and uncontrolled interference of Druze and Shi'ite militia groups.

Various trips to the control tower showed rusty equipment and the effects of inefficient maintenance. The question is whether the American sanctions would punish those who deserve to be punished, or just contribute to Lebanon's downward spiral of despair and hopelessness.

Pretoria study assails apartheid

BY JIM JONES IN JOHANNESBURG

APARTHEID is the root cause of racial friction, a study by an official South African Government think tank has concluded.

The four-year study, carried out by the government-financed Human Sciences Research Council (HSRC), says that Apartheid is a failure; claims that officially-inspired racial segregation has eliminated spontaneity in inter-racial relationships and has compounded suspicions and resentments; questions the Afrikaner Government's theories on racial differences; and warns that unless the Apartheid system is substantially demolished the country will continue to move towards violent racial confrontation.

Whether these conclusions will form the bases for rapid shifts towards fully participative democracy is another matter. The Government regularly sponsors social research studies which are frequently designed to put the imprimatur of scientific objectivity on trends which are developing but which are opposed by politically powerful right-wing groups.

Nevertheless, the official stamp on the report will almost certainly strengthen the arguments of those calling for an acceleration of apartheid's demise though it will not silence white right-wing parties clamouring for a return to rigorous apartheid.

The report questions the very ground on which the South African apartheid state is built. It calls for a sharing of political power and the guarenteeing of freedom of association, which has been illegal since 1968.

Implementation of state policy is equally as severely criticised by the HSRC researchers. Laws, the report finds, are veiled in secrecy and marred by lack of control, which creates opportunities for political suppression; do not "ensure equal treatment for all population categories"; and themselves represent a threat to the state.

On the more narrowly defined economic front, the HSRC says that all economic restrictions should be abolished and that a professionally rather than politically controlled education system is needed in which segregation and inequality will cease to contribute to the deep segmentation of society.

Black miners back after threats of dismissal

BY OUR JOHANNESBURG CORRESPONDENT

ALMOST ALL the 20,000 black miners who went on strike at three South African gold mines in protest against wage increases on Monday returned to work yesterday, following threats of dismissal by management.

Gencor, the mining house which manages the Kinross, Winklehaak and Beatrix mines halted by Monday's unofficial stoppages, says it does not know why the men stopped work and is interviewing some strikers in an effort to determine grievances.

The three mines, and two others managed by Gencor which went on strike at the weekend, do not recognise the National Union of Mineworkers (NUM) which is actively recruiting on the mines. As a result, management has had difficulty in negotiating with strikers.

The NUM says the strikes were in protest at unilateral wage increases implemented following failure to reach agreement with the NUM during this year's negotiating round.

The Gencor mines, which have been halted by strikes, all announced increases which, the NUM says, were below Chamber of Mines averages.

One man died during Monday's work stoppage at Winklehaak and, at the Beatrix mine in the Orange Free State, armed police used tear gas to disperse demonstrators

WORLD TRADE NEWS

Exporters join forces to combat U.S. textile Bill

BY WILLIAM DULLFORCE IN GENEVA

DEVELOPING COUNTRIES exporting some $16bn (£12.3bn) a year of textiles and clothing to the U.S. have joined forces to lobby in Washington against the protectionist textile hill before Congress.

Last week 28 exporting nations sent letters to the chairmen of the U.S. Senate finance committee and the House ways and means committee, the State Department and senior trade officials, urging them to "break the momentum of congressional support for the Bill."

In an aide-memoire accompanying the letters the exporting countriea spelt out the inconsistencies and misconceptions about the impact of imports on the U.S. taxtile and apparel industry which they allege underline tba Bill.

The Washington embassies of the 28 nations will personally contact senators and congressmen before July 15, when new hearings on tha Bill are expected to be held, in the hope of generating support for the Reagan Administration'a recent appeal to Congress to defeat the Bill.

The campaign is being coordinated from Geneva by an inter-governmental organisation called the "programme of co-operation among developing countries, exporters of textiles and clothing."

Sr Felipe Jaramillo of Brazil, the chairman of the organisation, said yesterday that if the Textiles and Apparel Trada Enforcement Act before Congress came into force, the U.S. would be in violation of its obligations under both the General Agreement on Trade and Tariffs (Gatt) and the multi-fibre arrangement (Mfa), which governs the bulk of the world's trade in textiles and clothing.

Moreover, by abrogating the moat-favoured-nation principle underlying all trade agreements, the act would cause irreparable damage to the multilateral trading system, Sr Jaramillo said.

The developing countries claim the Bill discriminates in favour of Europe, Canada and Japan, wblch would suffer less from the restraints imposed.

Exporters from these countries would be more likely than domestic producers to fill tbe supply gap in U.S. textiles and clothing created by the enactment of the Bill, Sr Jaramlllo said.

Discriminatory restrictions against developing countries have already led to a decline of 4 per cent in their exports to the U.S. in the period from October, 1984 to Marcb 1985 compared with the corresponding period 12 months earlier, the *aide-memoira* claims.

During the same perlod U.S. imports from the EEC, the European Free Trade Association (EFTA) and Canada increased by 35 per cent, it alleges.

Talks of the future of the MFA are due to open here ln Geneva on July 23. Sr Jaramillo said the Bill before the U.S. Congress was creating a "bad atmosphere" and affecting the credibllity of the negotiations to find a new framework for the MFA.

Japanese consortium to build fertiliser complex

BY OUR BANGKOK CORRESPONDENT

THE JAPANESE consortium of Chiyoda Chemical Engineering and Construction and Marubeni has won another main contract for a $251m fertiliser complex in Thailand.

Natiooal Fertilizer (NFC), a Thai company 43 per cent owned by the Thai Government, has issued a letter of intent to the group for the complex's $113m infrastructure and offsite facilities.

The Japanese group was chosen against Dragados y Construction, a Spanish group, which was the lowest bidder with an offer of $111m. The Japanese hid was selected because the former's technical and fioancial proposals were superior, NFC's chairman M.R. Chatu-Mongol Sonakul said.

The Japanese group and Voest-Alpine of Austria have already secured an NFC contract to build an ammonia plant and two urea plants for $74m.

The other main contract, including the construction of a sulphuric acid plant and a phosphoric plant, went to the Japanese-British group of C. Itoh, Davy McKee (London) and Mitsui Engineering and Shipbuilding for $64m.

The three contracts are expected to be signed in the next two months when NFC is expected to finalise the project's loan agreements and its plan to restructure the company's equity.

About $190m of the project's financing will be suppliers' credit, $81m from NFC's own capital and $80m loan from Japan's overseas economic co-operation fund.

NFC has been able to remove the contractors' demand that the loans be guaranteed hy the Government. The project would guarantee itself, said the company chairman, adding that the same obstacle would also be removed in loan talks with OECF.

The complex, whose outputs will meet most of this agricultural-hased country's fertiliser demand, is scheduled to begin operation in December 1987. It will be located in the eastern seaboard province of Rayong, being developed into a major industrial town.

Technimont wins share in $80m U.S. project

BY OUR MILAN CORRESPONDENT

TECHNIMONT, the engineering subsidiary of Italy'a Montedison group, has won a contract to handle design ond implementation on a $80m (£61.5m) turnkey project to huild two polypropylene planta in the U.S.

The contracts, which call for the completion of plants in Bayport, Texas and Lake Charles, Louisiana hy next year, were awarded by Himont the world leader in polypropylene production which is 50 per cent owned hy Montedison and 50 per cent by Hercules of the U.S. The two plants will each hava capacity for the manufacture of 140,000 tonnes a year of polypropylene.

● Montedisrn's recently announced plan to merge its Ansimont chemicals subsidiary with Compo industries of Delawere is to be effected by combining the shares of both companies in a new Dutch-registered vehicle. After the deal is complete Montedison will own 86.5 per cent of the Dntch holding company and Compo 13.5 per cent. The new company, like Compo, will be quoted on the U.S. Stock Exchange.

Sweden and Denmark seek road rail link

By Kevin Done, Nordic Correspondent, in Stockholm

SWEDEN hopes to reach agreement with Denmark this antnmn on the construction of road and rail links across tbe Oresund, the strait separating soulhern Sweden from the Danish island of Zealand. It wonld be one nf the biggest transport projects ever contemplated in northern Europe.

The road bridges and tunnels planned between Malmö in Sweden and Copenhagen, the Danish capital, and rail links between Helsingborg, represent two of the major missing links in the transpori network of northern Europe.

The project would be similar in scope to the Channel tunnel proposed between England and France, but has previously heen hlocked chiefly by polltical obstacles in Denmark.

The economic arguments in favour of the scheme, which has been nndcr discussion for several decades, have strengthened significantly occording to o joint report of tbe two Governments pnblished recently.

The report favours the hnilding of o 17 km, four-lane motorway link between Malmö and Copenhagen with a system of tunnels and hridges estimated to cost around SKr 3.3bn (£289m) (at Jannary 1984 prices). The project would take between seven to nine years to complete.

The report also supports the construction of a five-km single-track rail tunnel to link Helsingborg in Sweden and Helsingör in Denmark.

The cost of the rail tunnel is estimated at SKr 2.3hn with a hullding time of eight years.

The report says the road link sbould be financed through a system of tolls, while the rail tunnel costs would be covered by the railway administrations of the two countries.

The main pressure for road and rail links across Oresund is coming from Sweden. Mr Curt Boström, the Transport Minister, said yesterday: "Swedish industry has a great need of better links to tha Continent; It must be able to compete."

Short Brothers wins Thai aircraft deal

By Boonsong K'Thana in Bangkok

SHORT BROTHERS of Belfast has wo na small but important contract to supply two 36-seat Shorts 360 turbo prop commnterliners to Thai Airways, Thailand's stote-run domestic airline.

The Thai Cabinet yesterday approved the deal which put an end to a series of debates lasting over three months over the relative merits of unpressurised aircraft.

The contract, worth abont (8.9m (£6.8m) is a triumph for Sborts as it may prevent the entry of other rival aircraft of its size to the Thai's airline feederline fleet, now comprising four smaller Shorts 330's.

Rival prodneers like De Havllland of Canada and Saab Fairchild of Sweden had competed fiercely to push the sale of the Dash-8 and the Saah Fairchild 340, both pressurised alrcraft the same size as the Shorts 360.

Meanwhile, McDonnell Douglas is launching a sales drive for its new advanced Tri-jet MD-11X aircraft to Thai Airways International, the country's national airline.

BAe pushes the Alarm in West Germany

BY PETER BRUCE IN BONN

British and West German Government officials meet today to discuss intense lobbying by British Aerospace to sell its Alarm (air launched anti-radiation missile) to Bonn

INTENSE SALES efforts by British Aerospace and Whitehall appear to have delayed final West German approval for the acquisition of a $380m (£292.3m) American anti-radar missile system, built by Texas Instruments, for the Luftwaffe and the air arm of the West German Navy.

The British are trying to sell a similar, more sophisticated syatem to the West Germans. To the irritation of some officials in the Bonn Defence Ministry, the British have been lohhying hard among the parliamentary committees whch were expected to have given approval to procuring the U.S. Harm (high speed anti-radiation missile)) before Parliament's summer hreak began this week.

British efforts to sell BAE's Alarm (air launched anti-radiation missile) to Bonn are likely to be intensified in talks being held here today hetween Mr Adam Butler, Britain's Minister of State for Defence Procurement, and Dr Manfred Timmermann, State Secretary in the West German Defence Ministry.

Harm and Alarm were both designed to seek out and destroy radar equlpment attached to enemy anti-aircraft weapons systems: both are air launched. The American weapon, designed in the mid-1970s, has heen tested by the U.S. Navy. Texaa Instruments has told Bonn it could start deliveries by the beginning of 1987.

Alarm, however, ls still being developed, having heen chosen hy Britain's Royal Air Force after ithad studied Harm. British Aerospace has said it would he able to begin supplying the West Germans hy the end of 1987.

The company says it has offered the weapon al some 15 per cent below the price quoted for the U.S. system. It is also prepared to make a full technology transfer to West German companies, including the sensitive homing head and navigation system designs. The U.S., while also offering local companies some work on the missile, is understood to be reluctant to part with lts more sensltive technology.

By the time the British made their first major presentation on Alarm to the West German Defence Ministry ln April last year, most officiala showed little interest in it, arguing that the British weapon did not auit their requirements. The two aenior West German officials present at that first briefing left early.

The RAF plans to use Alarm on its Tornado fighter bombers primarily as a means of destroying fire control radar systems in attacks on "enemy" airfields. Bonn, however, wants to use Harm in the same way the U.S. Navy does—to hit ship radars.

British officials stung by the apparent indifference to their product in the West German Defence Ministry, argued that the Alarm would bave much more sophisticated technology than Harm, thai it was smaller, that German Tornados could carry more and that it would be more accurate. The British then approached the parliamentary defence commlttee in Bonn.

The committee, which has to approve requests for weapons purchases by the Ministry, then sent some of its members to Britain last November for further hriefings on the missile.

In a move almost without precedent, the Ministry had written into its original operational requirement document the name of the weapon, Harm, as the one it wanted to buy, and tbus far had convinced the relevant politiclans that the missile was the only one of its kind available.

The visit of the Parliamentarians to Britain, however, resulted in BAe being invited hack to the Defence Ministry to give another presentation, this time last December, and a further one in January 1985.

British Aerospace was hy now reporting the content of these meetings back to the chairman of the defence committee, and complaining that Luftwaffe officers attending their briefings were not even bothering to ask questions about Alarm.

A further study trip to Britain, thia time by Bonn Defence officials, to view what technology BAe had to show, also elicited few questions. This was also reported back to the defence committee.

In May, the Ministry produced a comparison of the two missiles for the committec but, to the dismay of the British side, the comparison was made on the basis of the origioal operational requirement document, which was tailored to the U.S. missile.

BAe haa made a formal sales proposal, valid to the end of this year, to the West Germans offering, through a complex formula, a 100 per cent "offset" arrangement asked for by the Ministry. West German companies would be given the work on the missile and any failure to cover investment would be met by purchases of German equipment from the UK.

This offer, made in late April this year, is understood to have been met with a similar American proposal. The Harm missile is Texas Instruments's first major weapons system, and it has won a $522m order for 1,571 units from the U.S. navy. The Germans want to order a further 866 missiles.

The alarm project was last discussed with the defence committee at BAe's stand at the Paris air show last month, and the British are drawing some comfort from the fact that a final decision has not been taken.

A prime worry for BAe is that in trying to stop a final procurement order going out for Harm, it may have angered senior or influential officials at the defence ministry, some of whom are very closely identified with the decision to order the American missile. The danger la that Britain may have soured relations with the ministry over a missile which came very late into the running while it is negotiating to sell other equipment, including the sea Skua missile to West Germany.

Saab wins $29m aircraft order

BY DAVID BROWN IN STOCKHOLM

SAAB SCANIA, the Swedish automative and aerospace group, yesterday announced the sale of five SF-340 regional aircraft worth a total of $29m (£22.3m).

Finnaviation, a subsidiary of Finnair, has ordered three of the 35-seat turboprop commuter planes, two of which are to be delivered in August, 198, and the third several months later. A further two aircraft have been sold to Kendell Airlines, a small regional service based in Wagga Wagga, Australia. Both are to be delivered in mid-1986.

The SF-340 is a joint venture between Saah Scania and Fairchild Industries of the U.S.. So far, it has received 75 firm orders for the aircraft (10 since the start of June)

The major competitors to the five $5.8m twin-engined craft are de Havilland's Dash-80's, the French-Italian ATR-42, and Embraer's Brasilia 120.

● FLAKT, the ventilation equipment subsidiary of Asea, the Swedish electrical engineering group, will share orders worth a total SKr 300m (£26m) with Deutsche Babcock, with which it has formed a local consortium to compete ln the Federal Republic of Germany.

UK soft loan for Jakarta

Mr Paul Shannon, Britain's Trade Minister says that a substantial soft loan package is at present being put together to belp British business prospects in Indonesia reports Kieran Cooke from Jakarta.

Speaking in Jakarta at the end of a five-day visit to Indonesia, Mr Shannon said he had discussed the loan package with Indonesian ministers and it would be offered as soon as possible. He declined to say how much it would Involve.

The British Government has recently come under Increased pressure to offer such packages to help with contracts abroad and to compete with similar arrangements being offered by other countries

Several British companies are hoping to win major contracts in connection with Indonesia's ambitious development programme particularly ln the power generation, rail and air transport and shipping sectors.

AMERICAN NEWS

Reagan in low key welcome for freed TWA hostages

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

PRESIDENT Ronald Reagan yesterday prepared a restrained welcome home for the freed Beirut hostages, as a nationwide opinion poll showed overwhelming public support for his handling of the crisis.

But while three-quarters of those interviewed said that they approved of Mr Reagan's conduct, the Washington Post/ABC News poll showed continuing strong misgivings over the wider impact of the hostages' 17 day ordeal.

More than four in 10 (42 per cent) said that they thought the outcome was more a victory for the terrorists, while only 28 per cent thought that it was more of a U.S. victory. More than one third (36 per cent) said that Mr Reagan had not been tough enough.

Mr Reagan's attempt to close Beirut airport by legal and diplomatic means, announced on Monday, also met a cool reception yesterday. Congressional sources described the move as an empty gesture, considering that the airport is already virtually unused except for flights by the Beirut-based Middle East Airlines (MEA), and Mr Dean Rusk, the former State Secretary, dismissed it as "something of a flea bite."

Mr George Shultz, the U.S. State Secretary, said of MEA that "we're not out to get the airline. We're out to get the airport."

Other officials, however, admitted that ending all international flights to the airport, as called for by the Administration, would not have prevented the TWA hi-jacking.

Mr Shultz said that the U.S. knew the identities of the two original hi-jackers and would "go after them." If legal steps did not work, "we'll take them nonetheless. Then, we'll take other steps," he said.

Some of the freed hostages yesterday told the New York Times that the hi-jackers had planned to kill American servicemen separated from the other passengers "one by one." The killing was intended to "accelerate the process" of negotiation between the hi-jackers and the more moderate Shi'ite Amal Militia, according to one former hostage.

Mr Reagan, who was due to meet the main group of returning hostages at Washington's Andrews air force base later yesterday, was expected to keep the arrival ceremony relatively low key. The White House felt that it would be inappropriate to stage major national victory celebrations, given that seven American hostages remained in Lebanon and that the TWA captives had not been freed by a Washington military exploit.

About one third of the relatively small sample interviewed in the opinion poll said that they favoured military retaliation for the hi-jacking.

The poll also showed warmer feelings towards Israel, follow a period during the crisis when a growing minority favoured distancing the U.S. from Israel in the hope of preventing further terrorism against Americans in the Middle East. Almost half (46 per cent) agreed that Israel "helped the U.S. deal with the hostage situation as much as it should," with 37 per cent disagreeing.

U.S. new factory orders rise 2.1%

By Nancy Dunne in Washington

U.S. manufacturers managed a modest turn round in factory orders in May thanks to increased demand for non-defence capital goods and the continuing strength of defence spending.

New factory orders in May increased $4bn, (£3.1bn), or 2.1 per cent, to a seasonally adjusted $195.85bn. Orders for durable goods rose 3.2 per cent, with defence orders for aircraft, aircraft parts and shipbuilding accounting for about 80 per cent of the increase.

Between Janary and April, defence spending had been unable to compensate for the weakness in manufacturing in April, factory orders declined 8.3 per cent and in March they fell 8.8 per cent, according to revised figures.

However, in May orders for non-defence capital goods rose 0.8 per cent, showing, according to one Commerce Department economist, that although military money is *cushioning the economy*, there is still some strength left in the domestic manufacturing sector.

Manufacturers' shipments had reached a high of $196.2bn in December 1984 before dropping to $191.7bn in January and then making small increases in three of the last fourth months.

Excluding defence, unfilled orders were down 0.9 per cent in May, and they have been generally declining since last July.

Meanwhile, the Commerce Department has reported a 1.5 per cent increase in May's total construction spending. Sales of new single-family houses rose 9.7 per cent during the month to a seasonally adjusted annual rate of 676,000.

● After months of clinging to a forecast of a 3.9 per cent growth rate, the Reagan Administration is preparing to lower its projection for economic growth for all of 1985, according to Mr Beryl Sprinkel, new chairman of the President's Council of Economic Advisers, AP-DJ reports from Washington.

Mr Sprinkel said that the Administration will "very probably . . . revise down a little" its forecast despite signs that the economy is gaining strength.

Hugh O'Shaughnessy looks at a Lima businessman's campaign against bureaucracy

A positive view of Peru's informal economy

SR HERNANDO DE SOTO is 43 years of age, *forceful*, voluble and rich. The Peruvian businessman speaks rapid English with a strong American accent, loves publicity and lives in a large modern house in the chic Lima suburb of Monterrico. Incongruous as it may seem, Sr de Soto is one of the few Peruvians to have *studied* the *city's fast* growing slums and Peru's luxuriant black economy and come up with ideas about the problems and opportunities they present.

Sr de Soto has been a director of the central bank and president of Cipec, the International *Council* of Copper *Exporting* Countries, but he says he has always been uncomfortable with the status quo. He has certainly shaken up conventional thinking about the less fashionable end of Peruvian society.

Research carried out by his Institute for Liberty and Democracy (ILD) has revealed some surprising facts about what Sr de Soto calls the "informal" economy and those who run it, not least about its *size* and efficiency. He has become a champion of the rights and prerogatives of the informal sector against what he sees as the overweening power of an immensely hidebound and bureaucratic pre-capitalist state.

Sr Hernando de Soto: shaking up conventional Peruvian thinking

In Lima, a city of 5m people, he estimates that there are no less than 300,000 street vendors and tens of thousands more people who operate illegal taxis, buses and other services. *Many* of them are doing very nicely indeed, he says.

The image of slum dwellers and the informal economy has been deformed, he says, by a succession of sociologists who have penetrated parts of the capital in search of poverty and found it; but they have not reached the more prosperous inhabitants who are often reticent about discussing their quiet, illegal, prosperity.

The big turnover of some street traders is attested, according to Sr de Soto, by the *fact that the right to trade* on a few feet of favoured parts of the pavement in Lima can change hands for as much as $750 (£577) a month.

A relief driver of an illegal bus, for instance, can earn up to $560 a month while an owner-driver can earn as much as his Israeli counterpart and almost as much as a bus driver in the U.S. The ILD has uncovered examples of five-storey factories and a high-tech workshop producing precision parts for the Peruvian air force operating in the slums outside the formal economy.

The informal sector, Sr de Soto argues, provided housing for 2.7m Peruvians between the mid-1950s and 1982 at a cost of $7.2bn, 20 times what the state expended in cheap housing. While the municipality has erected two main markets in recent years in Lima, the street vendors have organised 196.

This other economy exists, says Sr de Soto, because the tradition of red tape instituted under the Spanish viceroys still strangles aspiring businessmen.

Research carried out by the ILD showed that to establish and register legally a small clothing factory required 289 days of full-time work, the submission of 31 metres of application forms and the necessary bribery of eight officials.

Sr de Soto rails against a *system* which produces 24,000 new regulations every year.

In February, Sr de Soto and the ILD thought they had scored a victory in the fight for a freer market. The Government of President Fernando Belaunde announced that any new government measures affecting citizens' rights vis-a-vis the state had to be published in draft form in the official gazette together with a justification and submitted to public comment.

The announcement came after months of discussion between *the Government* and the ILD: Dr Luis Percovich, the Prime Minister, greeted it as "a transcendental decision of the Government."

Shortly before, the government had established the National Commission of Economic Rights (Code) to champion the individual against the bureaucracy. The bureaucracy paid no attention, however, continuing to publish regulations without any sort of consultations. Sr de Soto and the ILD have retired hurt.

Sometimes, Sr de Soto is carried away by his own rhetoric, massaging facts to suit his own arguments. But few will deny that his assaults on sterile bureaucracy and his new and positive view of black economies are valid in many Latin America countries, not just Peru. As growth in the formal economy stalls, the black economy is taking much of the strain.

Unions sign Japanese-style contract with GM-Toyota

BY TERRY DODSWORTH IN NEW YORK

UNION leaders at the jointly-owned General Motors-Toyota car plant in Fremont, California, have negotiated a pace-setting wage contract which introduces several radical Japanese ideas on worker-management relations to the U.S. motor industry.

Among the new concepts, described as "highly innovative" by a labour lawyer close to the discussions, is a sweeping reduction in the number of job categories in the plant, and an agreement that workers will not be laid off until executives have *taken salary cuts*.

Production at the joint project plant, New United Motor Manufacturing (Nummi), began late last year under the direction of a largely Japanese management. But until now, workers at the plant have been employed under *a temporary* agreement at rates slightly lower than the nationally negotiated United Auto Workers (UAW) wages in General Motors.

The contract talks at Nummi have been closely watched by the rest of the U.S. industry, because it is the first large Japanese car plant which has allowed the UAW entry. Executives also believe that Nummi's wages plan could provide the base for similar agreements in other Japanese plants, while its innovative approach could possibly spill over into U.S.-owned factories.

Wages under the deal are in line with pay in General Motors' plants, with assembly-line workers earning $13.28 (£10.29) an hour before benefits.

The most *important* change from traditional contracts, however, lies in the reduction of job categories from around 100 in many U.S. auto plants to just four, one for production workers and three for skilled tradesmen.

Dominican Premier re-elected

Dominican Prime Minister, Mary Eugenia Charles, a close U.S. ally in the Caribbean, swept to re-election on Monday, according to unofficial but complete results, AP reports from Dominica.

With all 21 districts showing complete returns, the ruling Dominica Freedom Party captured 15 seats, to five seats for the Labor Party and one for the United Dominica Labor Party.

Miss Charles' party captured nearly 59 per cent of the approximately 33,000 votes cast, election officials said. The Labor Party won 39 per cent.

The left-leaning Labor Party, formed last year from three competing opposition parties and led by Mr Michael Douglas, had criticised Miss Charles' close ties to the Reagan Administration during the campaign. Miss Charles encouraged the 1983 U.S. invasion of Grenada.

Leader of Mexico's main left-wing party kidnapped

BY DAVID GARDNER IN MEXICO CITY

THE LEADER of Mexico's main left-wing grouping, the Unified Socialist Party (PSUM), has been kidnapped, further souring the tense atmosphere in the run-up to what are probably the most hotly-contested elections here in half a century.

Sr Aroldo Martinez Verdugo, a veteran leader of the old Mexican Communist Party, and the PSUM's candidate in the 1982 presidential elections, was taken from his office on Monday afternoon by five heavily armed men, party officials said.

The PSUM is an essentially "Eurocommunist" coalition built round the old Communist Party, which formally dissolved itself in 1981.

Party officials said the kidnappers described themselves as members of the self-styled Party of the Poor, the residue of the left wing guerrilla movement which operated throughout the 70s in the hills of the south western state of Guerrero.

The incident appears to have no direct connection with Sunday's mid-term elections, which are for a new Congress, Seven *out* of the 31 *state* governorships and some 800 town halls.

In these elections, the opposition stands to make major *gains from* the all powerful Institutional Revolutionary Party (PRI), 56 years in power.

Sr Martinez Verdugo's kidnapping seems *motivated* by an old feud between the Party of the Poor and the Communists.

Part of the ransom for the 1974 kidnapping of Guerrero's state governor, was handed over to the new PSUM by a former guerrilla, who was also kidnapped in February.

The survivors of the guerrillas, who had been wiped out by the army by 1978, are demanding the return of the money with allowance for interest and inflation.

Exxon to appeal again

EXXON, the world's leading oil company, is to appeal against a ruling by a special federal court in which it was ordered to pay $2bn (£1.5bn) for over pricing crude oil from an oilfield in Texas, writes Terry Dodsworth in New York.

The company's decision follows the failure of its appeal to a temporary emergency court in Denver against a U.S. Department of Energy ruling that it overcharged for oil during a period when the U.S. industry *faced strict* price controls in 1975 to 1981.

A total of $895.5m was received by Exxon and its partners in the field during the period of price controls, and interest is being charged at the rate of $470,000 a day on the sum owed.

According to an Exxon spokesman, the company has decided to ask the special court, set up in the 1970s to deal with disputes in the energy industry, to reconsider the case.

RESOURCES REVIEW: EXXON

The big tests that lie ahead

By Ian Hargreaves

WHEN Mr Clifton Garvin, Exxon's chairman, stood up in Los Angeles recently to address his tenth annual meeting, he had good reason to sound pleased, even though his company and the industry it dominates face some searching strategic questions.

Exxon, he noted, had emerged from the extraordinary turbulence of the decade of oil shocks "strong and vigorous." Net earnings in 1984 had reached a record high and shareholder dividends were raised.

Exxon had also, he said, made solid progress in restructuring its business—reducing refinery capacity by 30 per cent in five years, upgrading its retail network and cutting costs by reducing staff and *improving the efficiency* of operations. These economics, Mr Garvin said, had contributed $0.5bn to Exxon's $5.5bn 1984 earnings.

In terms of earnings per share, Exxon's progress in 1984 was even more dramatic, since the number of Exxon shares outstanding has been reduced by almost 10 per cent since 1983, when the company began in earnest a stock repurchase programme which has so far cost it over $4bn. Net income per share last year was up 17 per cent on 1983, compared with an 11 per cent increase in net income overall.

Wall Street is delighted with this new Exxon. The company's share price, a laggard two years ago, has hit new peaks this year, taking the company's market capitalisation closer to its underlying asset value than any of the other oil majors. Only Amoco has come close to matching Exxon in this regard.

Invulnerable to Boone Pickens style raiders on the grounds of size anyway, Exxon has surprised observers by the seriousness with which it has *absorbed* the central *Pickens* nostrum: remember the shareholders.

Going New York metaphors thus portray Exxon as the course, the sprightly dinosaur and the cash machine that works. Of as a recent Forbes magazine assessment put it, with a touch of Steven Spielberg: "While others were traumatised, Exxon saw what was happening and moved to *contain the damage*." Big, pronounced the Forbes headline, no longer means rigid at Exxon.

Wall Street is particularly struck by the apparent paradox that Exxon's profits have got bigger, as its revenues have fallen. At the *peak in* 1981, sales totalled $115bn. Last year, the figure was $97.3m. Oil product sales fell by 17 per cent in cash terms in that period.

Exxon, then, has successfully adapted to the post-nationalisation world in which it has less crude oil to sell. Last year, for every barrel of crude oil Exxon produced, it sold 2.5 barrels of oil products. A decade ago, the ratio was 1.6:1.

Faced with world of stagnant oil demand, which Exxon's forecasters spectacularly failed to foresee, the company has also supertanker that changed taken firm action to shelve projects conceived in the boom era, from diversification into office equipment to grandiose synthetic gas and oil from shale projects. Exxon today, as it transfers staffers from its prestigious headquarters building on New York's Sixth Avenue across the Hudson to the company's original homebase in New Jersey, is both a humbler and a sharper company.

But for all this, Exxon still faces a major test of character in the years ahead. Four points stand out.

● The imbalance at the heart of Exxon's profit base, where fabulous rates of return are still being generated upstream, whereas just about everywhere else in the business profits are low or non-existent.

● *This raises* the question of whether Exxon, traditionally the most centralised and integrated of the big oil companies, is still working with the *wrong* mind-set. Does it make sense for a company to operate such a vast marketing and refining system on the basis of a stationary or even dwindling crude oil resource base? Are the margins ever likely to be adequate in this business, even for an efficient *operator*?

● Just how deep have the cuts been in a company bureaucracy which is famous within the industry for its ability to put an army into the field to tackle a problem, where competitors would make do with a platoon? Does Exxon's corporate culture of centralisation mean that it inevitably carries a higher staff overhead than it needs to?

● Exxon's record in finding new reserves of oil and gas also raises critical questions. A recent and market improvement in the company's reserve replacement performance has its roots in the period of the late 1970s, when Exxon became noted for paying over the odds for leases. Will these prove to be good investment decisions if oil prices continue to fall?

The first of these questions can be fleshed out with a few numbers. Although difficult to *disentangle precisely*, Exxon's profits per unit of oil and gas output have risen steadily in cash terms since 1980, in spite of falling prices. Over that period, total upstream operating profits were little changed at around $2bn. Exxon's equity oil production, meanwhile, fell from 1.7m b/d to 1.65m b/d and gas production from over 7bn cubic feet a day to under 6bn cu ft per day.

This is the period, in which Exxon lost equity production in a number of areas, most notably Saudi Arabia, and when its output in the U.S. has been falling. But these two adverse trends have been counteracted by Exxon's extremely strong performance elsewhere in the non-Opec world, especially in Europe, where oil production rose from 155,000 b/d in 1980 to 412,000 b/d last year.

Outside the U.S., the company's return on average capital employed in its exploration and production division last year reached a fabulous 63 per cent, double the level of two years earlier, and almost four times the rate of return in recent years on the U.S. upstream business. In 1980, rates of return at home and abroad were almost identical. And this is in spite of the strong dollar.

The reasons for this divergence are many and varied. The front-loaded U.S. tax and oil lease auction system has played a part, along with Exxon's relative drilling success rates in the two areas. But it does also illustrate the point that Exxon, although formidable in its *geographical spread*, is heavily exposed to vicissitudes of foreign taxation regimes.

Outside the exploration and production sector, Exxon's performance, in common with much of the rest of the industry, has ranged from the mediocre to the downright poor. Its minerals and mining division has made 10 consecutive annual losses, aggregating $434m.

Reliance Electric, which makes *motors* and *other* industrial products, has been barely and only patchily profitable. Chemicals has averaged a return on capital of only 8 per cent in the past four years and refining and marketing have done little better—11 per cent in the U.S. and 9 per cent elsewhere. Exxon's marine business has lost $343m in the past three years, as the company has trimmed, but less severely than some competitors, the size *of its tanker fleet*.

In short, Exxon makes money upstream and loses it or enjoys inadequate returns just about everywhere else. In 1984, upstream operating profits of $4.7bn compared with total net income of $5.5bn. Upstream assets, however, comprise only half Exxon's total.

It is difficult on the basis of these figures to avoid the conclusion that Exxon, for all the recent acclaim, is a company which is still making some bad, or at least slow decisions. But like other oil companies, the windfall gains shaken from the tree by Opec in the 1970s have provided a comfortable blanket of upstream profitability to conceal its hesitation.

It would be unfair, however, to suggest that Exxon's management is inattentive to these *points*. *The direction of* management policy — to shrink the company — is clear. Under Mr Larry Rawl, the career Exxon man recently named as the company's president and therefore the likely successor to Mr Garvin when he retires at the end of next year, Exxon may find itself following the same path at an even quicker rate.

EXXON'S POSITION	1980	1981	1982	1983	1984
Net income ($m)	5,350	4,826	4,186	4,978	5,528
Return on equity (%)	21	17.8	14.9	17.2	19
Long-term debt ($m)	4,717	5,153	4,556	4,669	5,105
Capital spending ($m)	8,041	11,092	11,412	9,030	9,755
Proved oil reserves (bn barrels)	6.7	6.2	6.3	6.5	6.5

Exxon's faith in its future rests, essentially, upon two *points: that Exxon has* positioned itself as a low-cost, efficient operator both up and downstream, able to ride out the hard times, and that eventually the hard times will end as Opec re-asserts its pricing power in the market.

Both propositions are, at least, debatable. Exxon's strategy downstream, for example, has seen it cut refining capacity from over 6m b/d in the late 1970s to 4.6m b/d now.

But this *has been* achieved at considerable investment cost, as the company has upgraded refineries to produce a greater proportion of light products. Refinery investments peaked in 1981-82 at over $900m, but even last year were $791m. Marketing expenditure — smartening up petrol stations and other things—is still on a rising trend at $564m last year, an increase of 35 per cent on 1983.

The result is that Exxon's *system is certainly modern*. But the question remains: is it wise to invest so heavily in a mature business, where demand is growing slowly at best and when prices are gradually falling? Moreover, because of the politics of oil, normal economic pressures may not work to balance supply and *demand*.

Mr Clifton Garvin, Exxon's chairman.

World refinery capacity, for instance, has not changed significantly in the last decade, in spite of deep cuts by the West's major oil companies. So Exxon could continue for some time to find itself squeezed between aggressive, if hand to mouth, independent refiners in North America and the great integrated state oil companies of Opec.

Wall Street, however, has little time at present for this type of thinking. The market in Exxon shares is strong, because Exxon has ensured that demand for the shares is strong.

Wall Street's answer to the question of whether Exxon can go on buying shares and, in effect, liquidating itself at the margin to the direct benefit of shareholders is: yes. The company still has over 816m shares outstanding and the company is, it cannot be denied, a busy cash machine. At the end of last year, in spite of the share-buying spree, Exxon still held over $3.2bn in cash and marketable securities and long-term debt still equals only 17 per cent of total capital.

Since Exxon, in *common* with the other big oil companies, has entirely lost confidence in its ability successfully to diversify, there seems little else the company can do with funds surplus to the needs of its basic energy business. That is unless Mr Garvin and his successor decide that as Exxon's corporate profile lowers a little, they can afford to take the big anti-trust gamble and join the oil takeover game.

Probably the most galling single comparison for Exxon in the last two years, has been the way that Royal Dutch/Shell, its nearest competitor, has been able to swoop on both the remainder of Shell Oil and, recently, a $1bn stake in Occidental's Colombian discovery.

Mr L. C. van Wachem, president of Royal Dutch, told security analysts recently that "share repurchase should only be considered when the cash *availability is expected* permanently to exceed the long-term requirements of the business." In the polite world of Shell, that goes down as quite a dig at Exxon, which more than any other large oil company finds itself constrained by shortages of investment opportunity.

This may not matter for a while and indeed, in market terms, the share buy-back may be a thoroughly healthy activity. But it does tend to give the company a stalled, anxious image which might not, for example, make it an attractive option for the brightest graduates

These questions would disappear, of course, if Exxon could make a couple of really large discoveries, capable of absorbing even more investment dollars than the $7bn a year the company is already disbursing upstream. But that is the kind of "if" all oil companies face, in one form or another.

As Mr Garvin told the shareholders, Exxon's future will require more tough decisions. "If we have to be firm in our purpose, we have to be light on our feet as well. *What* we do is fully as important as how we do it. We need to be sure that every one of our business segments has good long-run prospects. *If* we decide that, for us, a particular activity isn't panning out, we have to be prepared to face the fact." Perhaps Exxon's biggest single problem is truly to absorb that message at a time when it is making net profits of more than $15m a day.

Summer sharpens focus on teachers' dispute

Hopes rise for peace in Britain's schools, but odds on a pay deal remain long

By David Brindle

COMPUTER SPECIALIST James Punnet will not be the only teacher to resign from the state system this term. He will, however, be one of the few who write to Sir Keith Joseph, Education Secretary, to say why.

In his letter to the minister, Mr Punnet says be is leaving his post at Martindale School, Hounslow, West London and is quitting the profession with mixed feelings of sadness, guilt and relief.

The sadness, he says, is at leaving behind colleagues and friends; the guilt is at letting down the school children; the relief, he tells Sir Keith, is "to be away from the penny-pinching, squalid scrabbling, make-ends-meet genre of behaviour that you have engendered in our schools."

Mr Punnet's bitter adieu, a copy of which is published in the latest issue of The Teacher, the journal of the National Union of Teachers (NUT) speaks volumes for a profession locked into seemingly-intractable pay disputes both in Scotland and in England and Wales.

Today, one more attempt will be made to break the deadlock that still persists in London after 21 weeks of disruptive actioo in English and Welsh schools. Hopes are higher than for some time, but the odds on a settlement remain long.

There are two positive factors. First, the meeting of the Burnham pay negotiating committee represents almost certainly the last chance to force a settlement before the summer school holidays and before the dispute is put on ice, to be reactivated in the autumn term.

The unappealing prospect of resumed conflict in September will concentrate minds on either side of the bargaining table. Most pressure, however, will be on the unions, which face the considerable problem of maintaining the momentum of the dispute over two months of inactivity.

The NUT's best ideas on this – keeping up pressure on MPs, promoting "parent support groups" and maintaining a summer-long vigil outside the Department of Education and Science – seem unlikely to inspire either teachers or the public.

The second positive factor is that today's meeting will see some fresh faces and fresh thinking on the employers' side. As a result of the May county council elections, Labour has ousted the Conservatives from control of the Burnham management panel, which now comprises: Labour 13 seats; Conservatives eight, SDP-Liberal Alliance and Independents two each.

The Labour Party machine (not without influence in the higher reaches of the NUT, the dominant union) has been in overdrive in recent days in the search for e way out of the dispute.

Significantly, however, Mr Giles Radice, Labour's education spokesman, yesterday released the text of a letter he bad sent to Mrs Nicky Harrison, who is tipped to become the Labour leader of the employers' side. He said: "The voters in the county elections in May clearly signalled that they want a quick settlement to the highly damaging teachers' pay dispute."

So there is pressure for a settlement and there are management negotiators apparently ready to dig deeper into their pockets in order to achieve it.

Ford settles part of copyright dispute

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

FORD has reached an out-of-court settlement with two of the 12 car body panel manufacturers which it claims are infringing its copyrights.

The group said yesterday that the two companies had agreed to a court injunction and in future would not produce complete panels, bumpers, radiator grilles, fuel tanks and badges based on Ford designs. The companies had also agreed not to infringe Ford's copyright in respect of these parts for future models.

The agreement does not prevent the companies from continuing to manufacture their own corrosion part-panels to fit Ford cars.

Ford said the two companies had asked not to be named but had agreed to pay a sum by way of costs and damages.

The group's legal action against the other body panel producers is scheduled to be heard on November 18. It is now likely there will be talks aimed at settling the outstanding claims before then.

Ford has meanwhile, had several meetings with the Department of Trade and Industry and the Office of Fair Trading. This follows a monopolies and Mergers Commission report which suggested that Ford was acting anti-competitively and against the public interest by refusing to grant licences for the production or sale of body panels.

The commission concluded that, in essence, without a change in the laws on copyrights, no powers existed to compel Ford to grant licences and preserve competition. It recommended that protection under the copyright laws should be limited to five years instead of the current 15 years.

Ford has argued during its meetings with the department and the Office of Fair Trading that five years would not allow enough time for manufacturers to recoup their initial investment in the original design and development of a new car and also to earn a fair reward for innovation.

Thatcher describes Milan summit as 'temporary setback'

BY IVOR OWEN

BRITAIN'S failure to obtain majority support at the EEC summit in Milan for its attempt to lead the way in giving the Common Market new momentum was described as a "temporary setback" by Mrs Margaret Thatcher, the Prime Minister, in the House of Commons yesterday.

She hoped it would be "fully repaired" et the next meeting of EEC heads of government and heads of state in Luxembourg in December. Mrs Thatcher went to considerable lengths to insist that the experience of being voted down in Milan had not caused her to lose her temper. She implied that any impression that she had been engaged in something approaching a verbal brawl with her EEC colleagues was entirely erroneous.

Mrs Thatcher: 'rhetoric about Europe gets in way of practical proposals'

Her main purpose, she explained, had been to secure support for e programme of action which would have enabled the EEC to surge ahead, particulary through the completion of the internal market, without having to consider amending the Treaty of Rome.

More in sorrow than in anger, the Prime Minister lamented: "I think sometimes a lot of rhetoric spoken about Europe gets in the way of practical proposals."

Mr Neil Kinnock, the Labour leader, branded the Prime Minister's performance in Milan a "clumsy failure." He said it was absolutely plain that after "six years of bluster" she had not succeeded in getting one tangible advantage for Britain.

He suggested that Mrs Thatcher's dismissive attitude to the intergovernmental conference – which is to consider some of the key issues she believed could have been resolved at Milan by acceptance of the British initiative – could lead to more difficulties.

Mr Kinnock called on the Prime Minister to attend the conference herself. He warned of the danger that changes in procedure which were not in Britain's interests and did not require amendment of the Treaty of Rome might be adopted by a further exercise in majority voting.

His insistence that it was essential that the Prime Minister should attend the inter-governmental conference brought no immediate response, although the Prime Minister admitted that she was no match for Mr Kinnock in the "emission of hot air."

Later Mrs Thatcher emphasised that it was not a conference of heads of government and announced that Sir Geoffrey Howe, the Foreign and Commonwealth Secretary, would represent Britain.

She emphasised that decisions taken at the inter-governmental conference would have to be reported to the Luxembourg meeting of heads of government in December. Any proposal involving change in tha Treaty of Rome could only go forward if given unanimous consent.

Mr Roy Jenkins, former president of the EEC Commission and a Social Democrat MP, asked why the Prime Minister had been so upset at the Franco-German takcover of many of the ideas advanced by the British Government.

Amid laughter, he said: "If one wants to make progress, it is highly desirable that other parties should put forward one's own ideas believing them to be theirs."

Clearly not amused, Mrs Thatcher retorted: "It seems strange, if they are already on the table, to duplicate them."

In sharp contrast to their vociferous protests 24 hours earlier about the outcome of the Milan summit, most of the anti-Marketeers on the Conservative backbenches adopted a restrained manner when questioning the Prime Minister.

Even Mr Teddy Taylor, a strong critic of the EEC, seemed less pungent than usual when he inquired if there was any likelihood of Britain being forced to apply VAT to a new range of commodities, including food, electricity and gas, through a further instalment in harmonising taxation.

Mrs Thatcher assured him, "I do not believe that the harmonisation of taxation is necessary for the completion of the internal market. We, therefore, shall resist it with all the power and strength at our command."

As for political union, she underlined her preference for what was best described as political co-operation and went on to declare, "I am absolutely against a federal Europe."

She added: "So, I believe, are the overwhelming majority of our partners in Europe, and there is no question of it."

To later questions, Mrs Thatcher insisted: "It is in Britain's interest to be in the Common Market, to secure the full working of the treaty."

The EEC, she added, "enhances the influence of Europe throughout the world."

Austin Rover to sell cheaper Maestro model

By Our Motor Industry Correspondent

AUSTIN ROVER, the BL volume cars subsidiary, hopes to lift sales of its Maestro hatchback with a budget-priced model, the City, to be introduced on August 1 – just in time for the peak selling period for new cars in the UK.

The Maestro City will be £4,855, or £439 cheaper than the current bottom-of-the-range version, the Maestro 1.3, which costs £5,294.

The price is highly competitive with the main rivals, Ford's three-door Escort 1.3 at £5,123 and the three-door Vauxhall Astra 1.3 at £4,874. However, there are cheaper Escorts and Astras available.

When the Maestro was launched in March 1983, the company hoped it would take over 5 per cent of total UK new car sales. Last year 83,072 Maestros were registered for a 4.63 per cent share. This year, the car has had to compete with Austin Rover's new booted Montego and its market share has fallen to 2.9 per cent.

Halley's comet probe launched

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE £40m GIOTTO spacecraft, built by British Aerospace and a team of European aerospace companies, was successfully launched yesterday on its long flight round the sun to intercept Halley's comet as it approaches the earth for the first time in 76 years.

The spacecraft was initially put into a "parking orbit" round the earth, after being launched from the French space base in Kourou, French Guiana, by an Ariane rocket launcher.

The next critical stage comes this evening, when the spacecraft is due to be fired into its final path away from earth and round the sun on its long 450m miles journey to intercept Halley's comet next March 13.

Halley's comet, named after the English astronomer Edmond Halley, only swings past the earth every 76 years. If the present attempt to intercept it fails, no other opportunity will occur until the year 2061. No back-up satellite is available.

The spacecraft is carrying experiments from a large number of European universities and other academic institutions to study the gases, dust and plasma in the comet'a nucleus. This information will be sent back to earth for three to four hours before the spacecraft is itself destroyed by bombardment from debris in the comet's tail.

Yesterday's launch was described as perfect. Mr Geoffrey Pattie, UK Aerospace Minister, said the industrial team involved had "performed magnificently against a most demanding specification."

Global loss of £85m for UK insurers

BY ERIC SHORT

THE FULL extent of the recession in trading conditions in the UK insurance market was highlighted yesterday when the British Insurance Association (BIA) disclosed that UK insurance companies last year recorded a trading loss of £85m on worldwide general insurance business. It was their first loss for decades.

Underwriting losses – the excess of claim payments and expenses over premiums – in the UK doubled in 1984 from £336m to £686m – some 15 per cent of premiums received. And 1983 was considered to be a very poor year for insurance, in the UK.

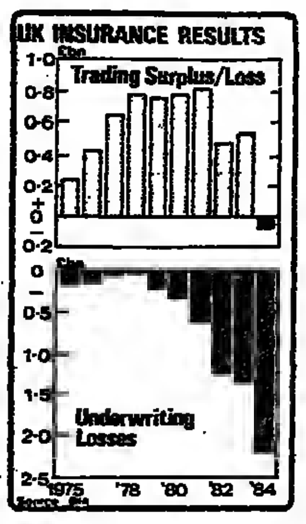
Commentators have tended to highlight the deep recession in the U.S. insurance market when discussing last year's results for UK composite insurance companies. The BIA indeed confirms this picture with U.S. underwriting losses up from £491m to £716m – reflecting the weakness of sterling at the end of last year as much as the continued decline in trading conditions.

In contrast, the decline in the UK has tended to receive less attention. Nevertheless, the U.S. and UK results, taken together, accounted for much of the 60 per cent rise in worldwide underwriting losses last year from £1.35bn to £2.2bn.

In previous years, the investment income generated by the premium cash flow and the strong underlying reserves of insurance companies has been more than sufficient to cover the rising underwriting losses. But although investment income rose by 12 per cent in sterling terms from £1.88bn to £2.11bn in 1984, it failed to cover the higher losses.

Thus, for the first time since the BIA started to maintain records of its member companies, the industry produced an overall trading loss. The BIA put forward several factors contributing to the poor results.

- Widespread storm damage in the early months of the year cost £175m in exceptional weather losses.
- The dry summer exacerbated the number of subsidence claims which rose to £140m – a higher figure in real terms than payments made following the dry summer of 1976.
- The social problem of rising numbers of thefts resulted in claims from private dwelling rising 17.5 per cent to a record £201m.
- Fire damage in 1984 totalled £554m – the second highest figure recorded.



- A strong rise of around 7½ per cent in claims on the motor insurance account – a rise that the industry cannot attribute to any single factor – together with a jump the size of claims made.

Mr Ron Bishop, outgoing chairman of BIA and a former chief executive of Phoenix Assurance, put his finger on the root cause of the recession when he discussed the inadequate premiums rates charged by companies on almost all classes of business in the UK. This is also the primary cause of the U.S. recession.

The net effect was that underwriting losses on UK fire and accident insurance business doubled in 1984 from £218m to £463m – some 14 per cent of premiums, while losses on the motor account climbed from £118m to £222m – 12 per cent of premiums.

Mr Bishop was not optimistic about this year's results from UK companies. The year had got off to a bad start with repeated severe weather losses in the UK – estimated at around £145m – from the big freeze-up in January – February, coupled with similar adverse weather losses in the rest of Europe and in North America.

However, he saw some favourable trends emerging in the industry. Premium rates were being substantially increased in both the U.S. and UK without any significant loss of business. There was a better balance between the demand for insurance services and the capacity available, as certain insurers pulled out of the market.

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COAL BOARD TO RECONSIDER DISMISSALS OF 203 SCOTTISH MINERS

Productivity link likely for pit pay

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE NATIONAL Coal Board (NCB) is likely to make increases based on productivity the major part of its pay offer to the National Union of Mineworkers (NUM) later this year – marking a sharp break with tradition in the industry.

It will, however, reconsider the position of the 203 mineworkers sacked in Scotland, who make up almost one third of the 622 sacked throughout the UK for offences committed during the year-long pit strike.

Mr John Loudon, the new Scottish area director, has sent a dossier on the sacked Scottish miners to the National Coal Board's headquarters in London and is to hold a formal meeting with Mr Mick McGahey, the Scottish area president, within the next two weeks.

There are hopes within the Scottish NUM leadership – which look to be well founded – that this review may result in some reinstatements.

In discussions at senior coal board levels on pay, the line emerging is that a nil basic pay increase would be impossible to defend – but that it should be considerably less significant in a final pay package than productivity rises.

No final position has yet been taken. But it seems probable that Mr Ian MacGregor, the board chairman, will tread the same path as he did when chairman of the British Steel Corporation in downgrading national wage settlements in favour of locally bargained productivity deals.

Both these issues were the subject of debate at the NUM's conference in Sheffield yesterday – a debate which ended in anger and emotion over the "victimisation" of the 622 sacked men.

The Nottinghamshire delegation, which alone voted against a Kent area motion calling for a special delegate conference in October to "decide what action will be taken to bring about their reinstatement," was the object of vituperation.

Mr Arthur Scargill, president of the NUM, made clear that, in accepting the Kent motion, he anticipated no automatic industrial action in October.

The motion also drew a distinction between those miners in jail and those at liberty, thus limiting its application to those not convicted of serious crimes – although NUM policy remains one of seeking the release and reinstatement of all dismissed men.

The rifts over the conduct of the strike surfaced when the conference debated a motion from Leicestershire – one of the fields which worked during most of the strike – that the union's national executive "consult the membership in national ballot form on pay and policy." The strike, which ended in March, had been called without a national ballot.

Mr Terry Hughes, a young Leicestershire miner, told an increasingly noisy hall that "the history of the past 12 months reveals quite conclusively that the strike did not receive the support of the membership."

When cries of "scab" rose from many delegates, Mr Hughes called back: "I will give you a definition of a scab: it is part of the healing of the wound. If I am part of that healing I am proud."

Mr Scargill interjected from the chair: "We are not festering today."

Mr George Bolton, the Scottish area vice-president, won applause with a speech which sought to stress the importance of the ballot vote to the NUM and thus to reconcile both sides.

He argued: "I don't accept that because the Tories are for something I am automatically against it. The ballot vote was something our forefathers fought for and won."

Mr Neil Kinnock (right), leader of the Labour Party, yesterday described talk by Mr Arthur Scargill of further industrial action in the coal industry as "fantasy." Mr Kinnock made no reference to Mr Scargill's call for a future Labour government to sack all National Coal Board pit and area managers involved in opposing the NUM during its strike. Miners, he said, had to live with "the extra power now held by the board." Common sense to prevent further defeats was vital. The Labour leader also rejected Mr Scargill's demand that the party should commit itself to freeing all miners jailed for offences connected with the strike. Mr Kinnock's statement was seen as an attempt to limit any damage caused by Mr Scargill to the Labour candidate's prospects in tomorrow's by-election in Wales.

Government drops wave power from energy options list

BY IAN HARGREAVES

THE GOVERNMENT is to support research into windmills, solar-heated homes and energy from waste, but will ditch its £17m programme of research into wave power.

Mr David Hunt, the energy minister responsible for renewable energy sources, said yesterday that the Government's policy would be to support the winners in non-conventional energy options. "We are concentrating our resources on the most promising options."

This year, the Government plans to spend a total of £14m on research into renewables, or about £20m if various EEC-backed programmes and work carried out by the Government's energy efficiency office is included.

Mr Hunt's statement came in response to a report from the Government's Advisory Council on Research and Development, which was asked earlier this year to carry out a review of Britain's efforts in the renewables field. It made six recommendations:

Passive solar energy, which involves modifying building forms and fabrics to permit the tapping of solar energy, "has considerable potential to reduce heating and lighting costs to buildings. It is economically attractive," the council says.

Biofuels. The council says there is much potential in using farm, industrial and domestic wastes as a fuel source. It also wants more investigation into the use of wood as a biofuel.

Geothermal aquifers. The attempt to locate hot spots in sedimentary basins – has not been successful and the council recommended rejection of a proposal to drill boreholes for a small heating scheme in Southampton.

Geothermal hot dry rocks. The technology of boring deep holes and artificially cracking rocks in order to circulate water and generate steam. The council says a research programme in Cornwall should continue, but that international collaboration should be sought.

Wind power. The council endorsed the Government's support for a horizontal-axis windmill on the Isle of Orkney in Scotland and a verticle-axis machine at Carmarthen in Wales. This is the area of highest Government spending.

Wave power. After ten years and £17m of spending, the council thinks Britain has shown that this technology should be placed in the "reject" category. The Government should, it said, continue to keep an eye on developments overseas. One of those, in Norway, involves a UK design.

Gold and currency reserves up $340m

BY PHILIP STEPHENS

BRITAIN's official reserves rose by $340m in June as the Bank of England took advantage of sterling's strength to buy dollars on foreign-exchange markets.

The Treasury said yesterday that after taking account of overseas borrowing and repayments, the underlying increase in the Bank's gold and foreign currency holdings was $124m.

Reserves stood at $14,316m at the end of the month. They have been rising steadily since the pound's recovery in February, although the annual revaluation of the Bank's gold and foreign-currency holdings in March gives the impression of a fall since the beginning of the year.

The authorities do not comment on the level of intervention, and the figure for the underlying movement in the reserves may include other transactions as well as direct intervention.

It is thought, however, that the Bank has now more than recouped all of the foreign currency it sold during the concerted intervention against the dollar earlier in the year, and has made a useful profit in the process.

The perceived success of that intervention has also prompted a shift in the Treasury's attitude. It now appears concerned to arrest the steady decline in the reserves since 1979 to put it in a stronger position should further intervention be necessary.

- Capital issues on the UK equity market totalled £516m in June, down from £664m the previous month, according to the latest statistics from the Bank of England.

But the value of new issues is still running well ahead of the level in 1984. For the first half of this year they have totalled £3.7bn, more than double the amount in the same period of 1984.

Rescue effort for Lloyd's syndicate fails

By John Moore

A RESCUE plan arranged by Willis Faber, the insurance broker, to help underwriting members of Lloyd's facing a £20m loss foundered yesterday. Only 27 members out of 243 affected by the losses had indicated that they would accept the offer, which closed yesterday.

While Willis Faber thought that the level of acceptances might rise, Miss Heather Thomas, one of the executives looking after the affairs of the underwriting members, said last night: "The level of support is not encouraging."

So far 168 underwriting members have instructed lawyers Clifford-Turner to consider the implications of the offer and to mount any necessary legal action. The offer needed 100 per cent acceptance.

Problems concern Lloyd's insurance syndicate number 895, formed of the members including tennis personalities Mark Cox and Virginia Wade. Underwriting members have been facing losses of up to £20m.

Consultants sought on tunnel project

By Duncan Campbell-Smith

CONSULTANTS are being sought by the Government to help the joint working party of British and French civil servants which will be required late this year or early in 1986 to award a mandate for the building of a fixed link across the Channel.

Firm bids for the mandate, which must be submitted by October 31, will be subject to detailed scrutiny on a range of financial and technical issues.

The Government also intends to appoint a merchant bank to advise it on the viability of the bidders' financing plans. Applications for this role are invited by July 10.

Plans for a Channel tunnel were presented yesterday by the Channel Tunnel Group (CTG), the UK joint venture between National Westminster Bank and five of the biggest construction companies in Britain. It was accompanied for the first time publicly by executives of the French joint venture which now comprises the other half of the Anglo-French tunnel consortium.

Building society receipts in June fall to £350m

BY MARGARET HUGHES

BUILDING societies – savings institutions which lend money for house purchase – suffered a sharp reduction in the inflow of funds from savers last month, wiping out any hopes of an early reduction in mortgage interest rates.

Preliminary figures indicate that net receipts dropped to £350m in June – far lower than had been anticipated. This is the lowest level since March, when societies had to raise their rates, and almost half the level which societies attracted last month.

Societies attribute the slump in savings to continuing competition from the banks, combined with the withdrawal of funds to finance the second instalment of the British Telecom share purchases and the Abbey Life flotation.

Given that the savings level is traditionally low in the summer months, when investors tend to withdraw funds for their holidays and buy cars, there is little prospect of any immediate improvement. Societies estimate that they need an average inflow of £800m to meet mortgage demand, which remains strong at about £2.3bn a month.

Societies are making greater use of wholesale funding and dipping into their own liquid assets to meet the demand for loans. An indication of the extent to which societies are running down their liquidity came with the publication yesterday of the first half-year results of Nationwide, Britain's third largest building society.

Mr Tim Melville-Ross, the newly appointed chief general manager, disclosed that the society's liquidity ratio had dropped by 3.6 per cent since the end of last year to 17.8 per cent, although he pointed out that this was still a "prudently high" level. The society raised £81m from wholesale sources.

Mr Melville-Ross pointed out that, while gross receipts were up 14 per cent at £2.16bn, withdrawals were also "very high." As a result, Nationwide's net receipts at £493m were considerably less than in the same period last year, when they totalled £568m.

Nationwide's chief executive attributed the decline in net receipts to the "new energetic competition" from banks in the retail market. The actions of banks, he said, presented societies with the options of either concentrating on wholesale funding or meeting retail competition "head-on" regardless of the cost to the borrower. In the event, societies had chosen a middle course.

Mr Melville-Ross reiterated his commitment to more orderly marketing. He indicated that, while not advocating a return to the interest rate cartel, he would like to see greater consultation between societies.

Greater self-discipline, he argued, could well have produced the same inflow of funds at a cheaper cost.

He said that passing on these increased costs to the borrowers in higher mortgage rates was not an option at current interest rate levels. For the time being, societies were able to dip into their liquidity and raise funds from alternative sources. But, if the current cost of retail funds continued for any length of time, this would affect societies' profitability in the longer term.

The Nationwide was the last of the major societies to hold out against investment-rate leap-frogging.

MPs' bus reform plans rejected

By Walter Ellis

PLANS by the all-party House of Commons transport committee for reform of the bus industry – which would have provided for competition within a monopoly system – have been rejected by the Government.

Instead, Mr Nicholas Ridley, the Transport Secretary, is to press ahead with his own proposals for open competition along defined bus routes.

The official proposals were contained in a White Paper (policy statement) published in February and the resulting Transport Bill is due to become law before the end of the year.

MPs had called on the Government to change its plans for the deregulation of the bus industry outside London by requiring competitive tendering to cover all services within a district, including those making losses.

The idea was that existing networks would be put out to tender to single franchisees. Monopolies would be maintained, while operators would have to uphold standards or face loss of their business at the next licensing round.

The Government does not believe that the element of competition in the proposal is adequate. It says that the committee's alternative would be more restrictive than the present system, since there would be no opportunity for an operator to seek to introduce new competing services during the duration of the contract.

There would, in addition, be insufficient incentives to operators to innovate, the Government says. "A heavy load would be placed on local authorities to specify services and fares, remote from the market test."

Economic tipsters take a fall at the forecasting hurdles

BY MAX WILKINSON AND JOHN CASSIDY

LIKE THE unfortunate weather forecasters, those who set out to predict the course of the British economy are equipped with large computers, huge amounts of data and a punter's instinct. And they also get it wrong.

But at least the weather forecasters do not have to make hasty adjustments to their equations to cope with a strike among the thunder gods or a cartel of the four winds.

In forecasting terms, thet was roughly the problem faced by the institutes and stockbrokers who set out to predict what would happen to the British economy last year.

They would need to be psychologists and fortune-tellers as well as econometricians to allow for all the effects of the the year-long miners' strike which ended in March. In the event, the strike reduced output growth by a little over 1 per cent in 1984 compared with 1985, with major effects on the current account of the balance of payments and public sector borrowing.

Most forecasters did not attempt to predict the date at which the strike would end. They simply made assumptions which were fed into their computers. For this reason, any assessment of their accuracy is extremely difficult. Moreover, it is obvious that forecasts made before the strike started are under a severe handicap compared with those made later.

Like the weather forecasters the economic modellers do expect to influence people's behaviour, so it is only fair that they should be subjected to the test of hindsight.

The table below is based on the predictions of 22 organisations whose forecasts for 1984 were published in the FT on June 26 last year. We chose these rather late forecasts on the grounds that most of the pundits would by then have at least a sporting chance of assessing the progress of the miners' strike.

It must be said at once that the Treasury and the Confederation of British Industry (CBI), the employers' body whose latest published forecasts were in March, did not allow for the effects of the strike. This explains their relatively poor showing. They are included merely for interest. The Treasury, incidentally, would be close to the bull's eye on output as well as inflation if tha target is moved a few paces to allow for the strike.

The method used was to compute the percentage error of each forecast compared with the outturn as set out in official figures in the middle of the month. We excluded variables such as the current account, which were enormously distorted by the strike.

For a final score we took a simple average of all the errors. A different selection of variables or a different scoring system could make a huge difference to the final scores, so we put them in alphabetical order rather than pretending to produce a league table.

The arbitrary nature of the scoring can be seen by comparing the performance of the National Institute of Economic and Social Research and the broker James Capel. Both had an average error of 13 per cent, but Capel's largest errors were in predicting consumer spending and exports, whereas the Institute made its biggest errors on GDP and inflation.

Nevertheless, with all its imperfections, the scoring system does suggest that on the whole the efforts of institutions using full-scale models of the economy were rewarded by better results than the City of London tipsters.

The London Business School, the National Institute and Oxford, which uses a version of the Treasury model all had low average errors. However, the creditable performances of broking firms such as Simon and Coates and James Capel shows that the Davids among the forecasters can often hit the mark as well as the Goliaths.

Most forecasters were over-optimistic about consumers' expenditure and pessimistic about exports. No doubt this is because forecasters are only human and, therefore, not immune from thinking the future will be like the immediate past.

Consumption has proved a formidable hurdle for forecasters since the 1970s, partly because of the way that changing inflation affects wealth.

Fortunately, private investment and better than expected export performance picked up some of the slack, although GDP forecasts were generally too high.

The over-prediction of consumption may also suggest the sheep-like quality of some forecasters who seem to treat the Treasury as a bell-wether and follow it with a few little twists of their own.

These figures should not be taken too seriously, especially since a similar exercise for other years would show very different results. The real moral is that economic forecasting the economy is difficult enough. Forecasting which forecaster will get it right is like looking for a 'cert' in the Grand National.

So it is in the spirit of the turf that we declare this year's outright winner to be the London Business School's Centre for Economic Forecasting by a short head. It cleared the three important fences: GDP, inflation and unemployment, with ease and lost only a few yards on the components of GDP-consumption and exports.

The City university which also scored well, has to be declared a non-runner for the technical reason that it did not publish forecasts for the components of GDP which we assessed.

Any tendency for City pundits to criticise at the Treasury for coming second to last must be curbed; we have our binoculars on them for this year's race.

Forecasts for UK economy – how they fared
Percentage error, from outturn 1984

Forecaster	Date 1984	GDP	Consumer Spending	Exports	Inflation	Unemployment	Average
Cambridge Econometrics	June	38	47	−17	13	−2	23
Capel-Cure, Myers	June	25	80	−17	− 9	0	26
CBI	March	17	100	−47	0	−3	33
City University	May	7			6	−3	5
Data Resources Inc.	June	−11	−7	− 8	13	−3	8
Grieveson Grant	June	90	127	−17	4	−6	49
Henley Centre	July	24	60	−20	4	−3	22
Hoare Govett	June	38	67	−11	52	0	34
Item Club	June	13	67	− 9	0	−3	18
James Capel	July	4	27	−29	− 4	−3	13
Laing and Cruickshank	June	50	27	− 9	6	−5	19
Liverpool University	May	71			−27	−8	35
London Business School	June	− 4	7	14	− 2	0	5
National Institute	May	−30	7	2	25	−3	13
OECD	June	4	67	−20	3		24
Oxford Economic Forecasting	May	4	−7	− 3	17	−3	7
Phillips and Drew	July	21	93	− 2	2	−3	24
Rowe & Pitman	June	33	60	2	4		25
Simon and Coates	July	4	47	−10	8	0	14
Staniland Hall	June	8	27	−30	0	0	14
Treasury	March	29	127	−26	− 6		47
Wood Mackenzie	June	21	67	−15	0	−0	22
OUTTURN		2.4	1.5	6.6	4.8	3.1	

Note: Outturn is real percentage increase year on year for GDP, consumer spending and exports; inflation is 12 month rise in RPI. Unemployment is 4th quarter adult total in millions. Error: figures are percentage over-estimate except negative figures which are under-estimate. Errors are calculated as closely as possible from variables actually forecast; for example consumer prices rather than RPI.

Carpet makers use more woollen fibres

Financial Times Reporter

WOOL NOW accounts for almost two-thirds of the total fibre consumption in woven carpets.

Strong demand for carpets last year and a switch out of man-made fibres saw wool's share of this sector rise from 57.7 per cent in 1983 to 64.6 per cent in 1984.

Wool also gained ground in tufted carpets, improving its share from 17.9 per cent to 18.5 per cent. Total wool consumption last year in the carpet market rose to 37.32 kg from the previous year's total of 34.49 kg.

The International Wool Secretariat said: "The improvement is due to British companies trading up to combat the influx of imports, the bulk of which are cheap synthetics.

THE ARTS

Television/ Christopher Dunkley

Disturbing lessons from the hijack

There were two long-running international stories in which television itself played a central rôle last week. One captured the attention of the world whereas the other attracted a small, if enthusiastic, audience to BBC2. For the part it played in the first story, television has already been widely criticised—often for the wrong reasons, in my view. For the part it played in the second, television has received (and no doubt will receive) precious little of the credit it is owed. The first story was the seizing of 39 American hostages by Arab hijackers, and the second was the selection of the *Cardiff Singer of the World*.

It is commonplace these days to condemn television for the way it features so centrally in incidents such as the hijack of the TWA jet. When the hijackers parade their prisoners in front of the world's cameras, it certainly seems clear they are relying on the power of television to carry their demands swiftly and dramatically to the people who matter most: the families of the victims and the politicians in the target country. And it is certainly true that no previous mass medium has been able to convey material of this sort with such vividness and immediacy.

Thanks to satellite systems, television can now enable those living in Washington or London to observe events occurring in, say, Beirut, virtually instantly. In the world of international diplomacy, such unprecedented speed of communication can presumably be a major drawback. People need time to think; and just as the movement towards computerised decision-making in the matter of nuclear war is so horrifying because it deprives us of the time for thought, so the intervention of television in terrorist affairs could be disastrous.

For this reason alone, broadcasting organisations working from democratic countries should declare voluntarily that they will co-operate with governments in delaying coverage when requested to do so, as long as they are persuaded of the gravity of the case.

Provided the mass media are numerous enough for there to be little chance of the government "nobbling" all the outlets, such an arrangement ought to work (as it already has occasionally in Britain between police and press, albeit in less extreme circumstances), so long as it is a truly voluntary arrangement.

But, in the end, television is only a machine, and suggesting that such arrangements may be necessary because of television's speed of communication is not the same as saying that television is "to blame" for the TWA hijack, or is necessarily even at fault in the way that coverage of the Arabs' demands was handled. You might blame the messenger if he obliges you to negotiate with untoward haste, but you still cannot blame him for the message itself, let alone for the policies of those who send the messages.

What are the motives of those who oppose the presence of television in these matters? It is hard to avoid the feeling that their real fear is that the terrorists will turn out to have a case; not for their terrorism, of course, but for the demands which they felt justified their terrorism. After all, what is to be feared from worldwide exposure if it leads merely to worldwide condemnation? The fear, surely, arises only at the thought of worldwide sympathy.

TV failed to convey, or even consider, the reasons for what President Reagan called 'ugly, vicious, evil terrorism'

There is a criticism to be made of the coverage of these events, but it is not that television aided and abetted terrorists. On the contrary, it is that television (like newspapers, but this is a column of television criticism) failed to convey, or even to consider, the *reasons* for what President Reagan called "ugly, vicious, evil terrorism." His words chimed oddly with three paragraphs which appeared in The Guardian's lead story reporting the freeing of the hostages on Monday:

"The hostages said they had not been ill-treated despite the horror of the original hijacking. Some spoke of their ordeal as a learning experience which had taught them why their captors had been 'driven to desperate acts.' The tone of their remarks was strikingly sympathetic.

"Mr Conwell stressed that the hostages wanted 'justice and understanding,' not 'retallation or revenge.' The TWA captain, Mr John Testrake, said they had found Amal to be 'human beings, people with the same fears, hopes and dreams for their country as we have.'

"The hostages left Beirut clutching flowers distributed by the gunmen guarding them."

Clearly, there is a touch of Stockholm Syndrome there (the captive coming to identify with the captor); but there is also enough to open your eyes and make you wonder whether the communications media of communist and terrorist organisations might not be the only ones suffering from tunnel vision.

You do not have to be a communist or a Shi'ite to ask if America, with its history of saturation bombing of civilians in Laos and Cambodia, and of civilian assassinations by the CIA elsewhere, is in any position to call any other kettle black, or to condemn anyone self-righteously as a "terrorist."

You do not need to be an extreme liberal (someone who cannot take his own side in an argument) to ask if America's one-eyed policy in the Middle East might not be partly to blame for the whole ghastly mess in the first place. You do not have to condone terrorism in order to ask how Israel's 700 "detainees" differed in their moral position from Amal's 39 "hostages."

It is in such maters as these that television can be faulted: in all the many programmes that I watched, such questions were never considered. Even in Monday's *Panorama*, after the hostages had been freed, what was still being asked over and over again was "Who won?"

There was no doubt about the winner in the week's other international television event, the *Cardiff Singer of the World Competition*. His identity—David Malis of the U.S.—was revealed to viewers on Sunday at the end of the last of six concerts which had brought an extraordinary diversity of song to BBC2 throughout the week. First organised in 1983, and now established as a biennial event, the contest is for "singers on the threshold of their careers." This year it attracted entries from 24 countries.

To the non-expert enthusiast, the standard of singing in the concerts broadcast Monday to Friday seemed astoundingly high, despite the fact that the fourth-rate sound systems fitted even on most of the more expensive television sets makes it hard to be sure. Somewhat surprisingly in a singing series, the sound of both orchestra and interviews seemed rather better than the sound reproduction of the singers.

Of course, there is no substitute for being present in the flesh, as those of us fortunate enough to attend the telerecording of the final contest in St David's Hall on Saturday discovered. Viewers at home could not really tell that the audience's lukewarm reception for Wales's own contestant contrasted vividly with the enthusiasm that greeted the Chinese bass, Yue Liu. While television certainly conveyed the power and quality of his voice, it scarcely hinted at his rare rapport with the audience, though it did reveal his charm.

Nor could television really communicate to the viewer that touching and almost magical atmosphere of camaraderie which is quite often achieved at international occasions of this sort. The friendliness and end-of-term atmosphere among the singers (not generally famed for fellow-feeling) was both endearing and infectious.

The pity of it is that although television—BBC Wales, to be precise—was wholly responsible for the very existence of this event; although the event was a heartening example of the fellowship of nations which can be achieved via the arts; although it was peaceable, happy, delightfully friendly and a splendid example of human ability at its most sublime, only a tiny minority of viewers will even be aware that it took place. Yet, thanks to television, everyone knows about the hijacking.

Television's news agenda is selected, of course, on the basis of what the broadcaster believes the viewer most wants to see. Only in totalitarian states do tractor production figures and singing contests take precedence over human drama. But perhaps our broadcasters might slip the success of a David Malis on to the very bottom of the news agenda from time to time.

Anthony Dowell and Jennifer Penney in the Royal Ballet's "Manon," being staged this week in the Big Top at Battersea Park, London

More Vivier/Almeida Festival

David Murray

Among the mini-festivals embedded in the continuing jamboree at the Almeida Theatre is "Hommage à Claude Vivier." Vivier's untimely death three years ago was mourned in France as well as in his native Canada (this "Hommage" is sponsored by the Canadian High Commission), but he had composed more than enough music to reward posthumous attention.

Monday's concert by the Lontano ensemble included three quite different Viviers, an elegiac tribute by Gavin Bryars and a big chamber-cantata by Vivier's one-time teacher, Gilles Tremblay.

The Vivier works showed us a young composer not so much groping for a style as cultivating distinct facets of what would surely have become one. (Perhaps at the last it did: we may find out this weekend, when the Almeida does his ritual-opera *Kopernikus*). His 1975 *Pièce* for flute and piano was a rhapsodic "montage of intense moments" from his other scores, lyrical and wild, with rapturous flute curvettings and wry punctuation.

By contrast, the 1977 *Pulau Dewata*, written after a visit to Bali, was a transparent exercise in additive rhythms and modul tunes, rather in the spirit of Messiaen.

The instrumentation of *Pulau Dewata* is left free; Lontano realised it on piano (right hand only) and winds, but I suspect that a more homogeneous ensemble would make its points plainer. Certainly, Vivier's use of piano and wind quintet in the 1981 *Samarkand* was utterly different: the initial neo-Romantic piano gestures soon melt into a liquid impasto, dense, steady woodwind ripplings, penetrated occasionally by a rising horn-line or a subaqueous explosion.

The sound has an ancestor in Ravel's Mallarmé songs with ensemble, but Vivier's construction is specifically modern—baleful, repetitive blocks with significant fractures.

Tremblay's visionary cantata *Dzei* conjures up a large space by energising extreme registers of pitch—soaring flute, percussion and piano high and low, and an eloquent bass clarinet whose treble squeals become part of the solo soprano voice (Pauline Vaillancourt, excellent).

This is a drama of transformations, with an impact that goes beyond its ingenious devices. The Bryars elegy was modest, limpid, sweetly sad.

Rats in the Skull/Royal Court

Martin Hoyle

Ron Hutchinson's claustrophobically absorbing and murderously intense arabesque on old hatreds bred in the blood and bone has returned to the Royal Court from a well-received stay in New York.

Michael Patrick De Valera "Demon Bomber" Roche has signed a confession in Paddington Green nick. The British police, contemptuous of Paddy in general, call an Ulster colleague in to question the IRA suspect further. A sewn-up case goes terribly wrong; we see the interrogation intercut with subsequent inquiries into the Ulsterman's eruption of violence towards the suspect. The bomber goes free; a scandal must be hushed up.

The piece emerges as a confrontation between the divided Irishmen to which the British seem an increasing irrelevance. Brian Cox is the RUC Detective, and his soaring monologues of sardonic mockery — of the enemy, of himself, of the stereotypes he is coming, fatally, to doubt—form the play's core of biting humour.

The rat in the skull is doubt, the suspicion that it may not after all be worthwhile. Mr Cox's beefy attack as his bitterness rises is totally engrossing. His accent may betray the odd hint of Scots or Geordie—not inappropriate for a descendant of James I's settlers—but the tough, incisive and relentless performance leaves nothing to be desired. Colum Convey's prisoner, his rage occasionally subsiding into silliness, and the cockney police contingent (Philip Jackson, Gerard Horan), angrily regretting the days when "bombs was what wogs threw at each other," provide good if necessarily overshadowed support.

In Max Stafford-Clarke's production, the bare suggestion of the police charge-room in Peter Hartwell's set finally reveals the green hills of Ulster; nd what looked like the cross-bars of a prison window emerges as the sights of a rifle. Peace depends, we are told, on who runs out of hate first; and there is the faintest glimmer of hope in the Detective's almost sacrificial bandonment of his career. Incisively written and delivered as tour de force by Mr Cox, the play never relaxes the tension during its single 100-minute ct.

Grafters/Hampstead Theatre

Michael Coveney

Grafters are the opposite of skyvers, but they all come to the same end in Billy Hamon's first play: the redundancy pool of a car factory where six workers have been randomly consigned while the management awaits their resignations. Mr Hamon, a bustling actor of criminally angelic demeanour who once "skyved" to good effect himself in Barry Reckord's play *Skyvers*, has written from the experiences of his father-in-law at the Rolls Royce plant in Hillingdon.

The old boy here is Wally (Richard Butler) who drifts on to report the death of his budgie and the state of his piles. All his life a grafter, he resents this fiddling limbo, the half-way house where menial tasks of painting walls and scrubbing floors are all that stand between a skilled worker and the dole queue. Wally has worked here for 46 years, with three to go. Young Roy has been here eight weeks, having looked for a job for three years.

Jane Howell's production dutifully assembles the others: Roy and Nobby compare notes on girlfriends, the former (Greg Crutwell) teasing his overweight, bespectacled sidekick (Perry Benson) about "water sports"; the James Dean idolater, Steve (David Hayman), arrives late having had trouble getting his jeans on; most interestingly, there is Tim Roth's introverted Peter who sits lugubriously black-suited like the Hamlet of Barking Creek muttering about buttons and fishing broken biscuits out of a Sainsbury's plastic bag.

Mr Roth's is the pick of the performances, along with John Benfield's quietly smouldering, transparently decent Len whose wife has been one of many entertained by Steve on the back seat of his Cortina. This revelation leads to one eruption; another is caused by Nobby pushing a broom handle up old Wally's trouble spot; yet another by the careless handling of a little black kitten (animal liberators please note, it's a prop).

The floor manager (Roland Oliver) storms on and off, stopping only for one brief chinwag with Len about the old days, but although Mr Hamon is at home in his cockney idiom, there is little convincing sense of real life going on off the premises. By the end, the machinery creaks, and the grey-walled set of Tony Burrough, with its lockers and pneumatic magazine pin-ups, reveals a marvellous new depth to the Hampstead stage (dressing room and backstage improvements have been in progress) that Jane Howell's production fails to exploit.

Theatre in New York

Frank Lipsius

The over-civilised characters of Terrence McNally's *The Lisbon Traviata* and the *enfants sauvages* of Lyle Kessler's *Orphans* are equally subject to sudden violence. Whether a convenient means to end the plays or a message for the times, the shocking endings are all these two refreshingly disparate off Broadway successes have in common.

The three-character *Orphans* at the Westside Arts is almost an exercise in animal training, especially under Gary Sinise's hyperkinetic direction, with the figures banging into walls, sitting down by jumping over the backs of sofas, and crawling along the floor like predators on the prowl. A graphic argument for social workers, the play presents teenage boys forced to live alone together; the older one supports them by stealing and keeps his younger brother cooped up in the house with a combination of threats, deprivation and horror stories about the outside world.

Their lives are interrupted by the kidnap of a middle-aged man, himself once raised in an orphanage, who soon turns the table on his captors and sets about civilising them. A potentially hackneyed theme is saved by the manic acting of Kevin Anderson as the younger brother, and Terry Kinney as his oppressive older sibling. John Mahoney rounds out the trio as a tough but tender victim who has the hardware (a pistol) to tame his young charges when necessary but can usually rely on outsmarting or cajoling them into acquiescence.

This latest evidence of the Chicago Steppenwolf company's work is again a highly accomplished production combined with a little too much of the *tabula rasa* school of human psychology.

Pretentious and biting arguments over Maria Callas make *The Lisbon Traviata* hilarious and exasperating, especially in the exaggerated speech of two New York homosexuals. At times, the pitch of bitchy one-upmanship and put-downs sounds like a scratch across a treasured record; but Seth Allen also manages to capture a noble and pitiful loneliness that echoes his heroine's voice, especially in two enraged monologues on the 'phone. John Tillinger's production at the Theatre Off Park conveys the toney gay life of the city, with two completely different sets by Philipp Jung for the old, cozy and ultra-modern looks.

Mixing cultural richness with emotional poverty, the play makes opera appreciation sound at times like the argument of sports fans and, at others, like parodies of reviews. "Nice try, Bubbles," after a Beverley Sills aria, typifies the mean but funny carping of the characters throughout act one.

Though the play makes what should be a brilliant switch in having the first act's pursued turn into the second act's pursuer, the play in fact gradually dissipates in nagging irony until its operatic ending. It is a loss not having Seth Allen's ageing and loud devotion to Callas in the second act, except for periodic light-hearted messages on a telephone answering machine.

Instead, a melodramatic encounter between Stephen (Benjamin Hendrickson) and Mike (Stephen Schnetzer) over Paul (Steven Culp) makes a would-be Butley less ironic, funny and appealing than aggressive, sullen and antipathetic. Failing to remain civilised becomes a crime; while not quite making it seems only a *four pas*.

Milstein/Festival Hall

Dominic Gill

Since Heifetz retired, Nathan Milstein has been the only pupil of the legendary St Petersburg school of Leopold Auer still to appear regularly in public. That would be remarkable enough, for Auer left Russia in 1917. But more remarkable still is the phenomenon of Milstein himself, now in his 81st year: a musician with the manner and bearing of a sprightly 60-year-old, a great violinist who can still be heard, with remarkably few lapses, at the height of his powers.

He was on robust and sparkling form for his recital on Monday night. He began with one of his customary entrees, a Vivaldi sonata (on this occasion the D major R10), delivered with the directness, simplicity and purity of tone that are the Milstein hallmarks. He has never been, in this sense, a very "Russian" violinist: the playing has a restraint and classical poise, and a sense of inward communing, that sets it apart from the world of Elman, Zimbalist, Heifetz or (at one further remove) Ricci and Oistrakh. It was a characteristic overture to a recital that contained no gimmicks, no tricks—but always the greatest finesse(and once or twice just a trace of Russian heritage in the Vivaldi cadences, a hint of darkly-burnished indulgence).

Milstein's Bach playing has become freer and more improvisatory over the years. The early Bach recordings are exceptionally correct, almost severe. But here he opened the G minor solo sonata with an adagio of delicate, tentative musing—as if he were discovering the shape of the music for the first time linking it gently to the suceeding fugue, and thence following a single unbroken line through the Siciliano and finale.

His Brahms D minor sonata, accompanied deftly and attentively by Georges Pludermacher, was impeccable, warmly phrased, generously rounded — the scherzo in particular, like the whole performance, was wonderfully well-mannered without ever seeming in the slightest stiff or reticent.

Milstein returned after the interval to give a pair of Paganini Caprices — and No 5 in particular with a concentration and glitter that Salvatore Accardo only dreams of. His own arrangement of Chopin's C sharp minor Nocturne was one of the most seamlessly perfect things of the whole recital, played muted throughout. And his finale of Saint-Saens's Introduction and Rondo Capricioso was done with very dry humour, driven home with splendid and absolutely un-schmaltzy virtuosity, exquisitely tuned.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

June 28–July 4

Theatre

LONDON

Waste (Lyric): Deserved transfer to Shaftesbury Avenue for the RSC's fine Harley Granville play about a politician ruined by sex scandal. Daniel Massey and Judi Dench head John Barton's production. (437 3686).

Breaking the Silence (Mermaid): Another RSC transfer, of Stephen Poliakoff's account of his family's emigration from post-Revolutionary Russia, Alan Howard succeeding Daniel Massey alongside Jenny Agutter. Ingeniously set in an Imperial railway carriage. (236 5568).

The Mysteries (Lyceum): The theatre of Henry Irving and Joe Loss restored for theatrical performance after 40 years. Bill Bryden's NT production in three parts is not to be missed, one of the great events of recent years. All three shows played on Saturdays for this limited run. (379 3055).

Guys and Dolls (Prince of Wales): The 1982 National Theatre production has arrived in the West End, if anything improved by the new casting of Lulu as Miss Adelaide and the notably well sung black Sky Masterson of Clarke Peters. Richard Eyre's production and John Gunter's affectionately lavish designs complement this most joyful and literate of musicals, a fitting tribute to the recently deceased co-librettist Abe Burrows (930 8681).

Noises Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blakemore's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (836 8888).

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's rollerskating folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 6184).

On Your Toes (Palace): Rodgers and Hart's 1936 musical is a genuine tonic. American jazz dance collides with the Ballets Russes. Gems include There's a Small Hotel, Glad to be Unhappy and the Balanchine ballet for Slaughter on Tenth Avenue. (437 6834).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. American Clare Leach is a real find as Peggy Sawyer, and Margaret Courtenay has a field day (836 8108).

Me and My Girl (Adelphi): Sleek, efficient and enjoyable revival of Britain's biggest war-time musical hit with Robert Lindsay in the Lupino Lane role emerging as the best new musical star since Michael Crawford. (836 7611).

The Government Inspector (Olivier): Striking but unfunny revival with under-equipped TV comic Rik Mayall playing the poseur as a shrieking nose-picker. Richard Eyre's production for the NT lacks either comic tension or true delirium but, with John Gunter's imposing design of bureaucratic bumf, the show has a sort of monumental starkness as well as nightmarish tedium. New translation by Adrian Mitchell. (928 2252).

Barnum (Victoria Palace): Michael Crawford returns to London with his breathtaking performance as the circus impresario, adding one or two new tricks in a likeable meringue of a musical. (834 1317, credit cards 828 4735).

Jumpers (Aldwych): Confident almost sober revival of Tom Stoppard's glittering comedy of love, murder and linguistic mayhem among the logical positivists, with Paul Eddington a more earth bound George Moore II than was Michael Hordern. Felicity Kendal delightful as his retired musical comedy wife. Peter Wood directs. (836 6404, credit cards 379 6233).

Richard III (Barbican): Last year's Stratford-upon-Avon production with Antony Sher demonically exciting as Richard in the RSC revival by Bill Alexander. Plays in repertory with Roger Rees as Hamlet and Kenneth Branagh as Henry V. All worth seeing. (628 8795, credit cards 638 8891).

Pravda (Olivier): Entertaining epic new play by David Hare and Howard Brenton for the National Theatre in which an unscrupulous South African magnate acquires Britain's most prestigious newspaper. A Jonsonian satire on the grand scale with an irresistible performance by Anthony Hopkins as the colonial who penetrates the Establishment while a nation dithers. (928 2252).

NEW YORK

Torch Song Trilogy (Helen Hayes): Harvey Fierstein's touching and funny recollections as a drag queen add up to the best histrionic Sarah Bernhardt role on Broadway today. (944 9450).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T. S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

Dreamgirls (Imperial): Michael Bennett's latest musical has now become a stalwart Broadway presence despite the forced effort to recreate the career of a 1960s female pop group, à la Supremes, without the quality of their music. (239 6200).

Brighton Beach Memoirs (46th St): The first instalment of Neil Simon's mix of memories and jokes focuses on a Depression-era Jewish household where young Eugene falls awkwardly in love with his cousin. (221 1211).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

Sunday in the Park with George (Booth): Inspired by the Seurat painting, Stephen Sondheim fashions a musical with dots and dashes of song that end too soon but work well with Tony Straiges's pretty set and James Lapine's book which changes gears in the second act. (239 6262).

WASHINGTON

Count of Monte Cristo (Eisenhower): The second production of Peter Sellars' new American National Theatre company is the James O'Neill version of this swashbuckler. (254 3670).

CHICAGO

Six Characters in Search of an Author (Goodman): Robert Brustein brings his acclaimed American Repertory Theatre to Chicago for this Pirandello classic. Ends July 14 (443 3800).

Saleroom/Antony Thorncroft

Drawings in demand

A rough sketch, in fact an oil modello, of the Deposition from the Cross by the early 17th century Italian artist Palma Giovane sold for £43,200 at Christie's yesterday in an auction of Old Master drawings. The price was way above the £12,000 top estimate, probably because such modelli by Palma are rare.

The morning session of the sale totalled £342,014, with 11 per cent unsold, a figure largely accounted for by the failure of a study of Jacob and Rachel at the well by Castiglione to find a buyer: it was bought in at £24,000.

Baskett and Day, the London dealers, paid £37,800, again way over forecast, for a head of a Venetian patrician by Tiepolo while the Adoration of the Shepherds by Il Baciccio also did well at £25,920: it is an unrecorded drawing for a major altarpiece by the artist in the church of Santa Maria del Carmine at Fermo. Another Tiepolo head of a Venetian patrician realised £19,440.

Old Master drawings are currently a strong market, and these Italian works exceeded their estimates mainly because many were previously unpublished. But there was also some demand for French artists, and two works by Moreau l'ainé showing aristocrats at play, dated 1775 and in bodycolour, just beat their forecasts at £16,200 and £14,040 respectively.

The Suffolk dealer Maureen Thompson paid £11,550 at Sotheby's for a previously unrecorded enamelled colour-twist wine glass of 1767 by Beilby, the most collected glassmaker of the 18th century. This glass turned up recently at a Sotheby's discovery day in Guildford. It is decorated with a three masted sailing ship called The Providence. The price paid was around double the forecast.

Another Beilby bowl, in fact a cordial, went for £5,060 to Asprey while an 1873 Pellatt and Wood engraved presentation claret jug, awarded for skill at rifle shooting at Wimbledon—where rifle contests were held before Bisley opened in 1889—sold for £4,840. Delamosne, the dealer, acquired yet another Beilby decorated decanter and stopper for £2,750 while a wine glass of 1770 by Beilby was on target at £2,090.

New musical

Alan Price's new musical *Who's a Lucky Boy?* will have its world première at the Royal Exchange Theatre, Manchester, on July 9, and run for five weeks.

The show, a modern version of *The Rake's Progress*, is designed by cartoonist Gerald Scarfe and directed by Braham Murray.

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Gorbachev's power play

BY unconventional, yet decisive means, Mr Mikhail Gorbachev has consolidated his power this week. Defyiog recent practice, the Soviet Party general secretary has decided not to take the post of president himself, but instead to elevate Mr Andrei Gromyko to that job. He has replaced the veteran foreign minister with Mr Eduard Shevardnadze, a provincial party leader from Georgia, a man quite unversed in diplomacy but known to be of the Gorhachev mould in domestic policy.

Less eye-catching to the outside world, but of more relevance to the protection of Mr Gorbachev's power base, was the dropping of his erstwhile chief rival, Mr Grigory Romanov, from the Politburo and the further rise of his key lieutenant, Mr Yegor Ligachev as the effective number two in the Soviet leadership.

In 1977 Mr Leonid Brezhnev started the practice of uniting the posts of general secretary and president in one man, himself, on the ground that this gave the party secretary more prestige in dealing with foreign heads of state. Mr Gorbachev repeated exactly the same argument last year when he proposed Mr Chernenko for the presidency. Now he has reversed himself to say that the allocation of posts should reflect the "major tasks" ahead, which be then defined as improvements in the domestic economy.

New blood

What the pundits reckoned without was Mr Gorhachev's desire for a hetter division of lahour at the top of the Kremlin hierarchy, as well as throughout Soviet society. The new arrangement seems to leave Mr Gorbachev relatively free to press for sweeping changes in management and work practices in the Soviet economy. It gives Mr Gromyko, the Soviet Union's "grand old statesman," the grand old statesmanly job of meeting and greeting foreign dignitaries. At 76 later this month, Mr Gromyko will give up the daily chore of running Soviet foreign policy that be has had since 1957, hut can still lend the weight of his diplomatic counsel in the Politburo. It brings in needed new blood. Mr Shevardnadze is, like Mr Gorhachev, in his 50s. Though he has no more (but no less) foreign affairs experience than most of the younger generation of Soviet leaders, he can work his way in, initially under the Gromyko tutelage.

This set-up in no way reduces Mr Gorbachev's role as the ultimate arbiter of Soviet foreign policy, as was made clear with the confirmation yesterday that he would he holding a summit meeting with President Reagan in Geneva in November. Thus, it seems there will he no repeat of the confusing troika — Brezhnev, Podgorny, Kosygin — that ran the Soviet Union for some years after the ousting of Khrushchev. Until Brezhnev eventually emerged as clear leader, foreigners were left in some doubt as to which of the three really ran Soviet foreign policy.

No immediate change in the substance of Soviet foreign policy is to be expected, but some change in style is possihle. Mr Gorbachev believes that Moscow's strategic and political arguments against the Star Wars programme warrant no compromise in the Soviet position at the Geneva arms talks, and none has been forthcoming.

Bitterness

But the sharpness of Mr Gromyko's recent presentation of Soviet positions to the U.S. may stem from bitterness at the fact that, despite his career long speciality in U.S. affairs, he leaves U.S.-Soviet relations just about as had as when he took over the foreign ministry. Mr Sherardnadze would not have the same emotional baggage. He may have other interests, too. His few travels, outside the socialist camp, have heen largely to the Third World, while Mr Gromyko never set foot in Latin America (bar Cuha) or black Africa. Some shift in Soviet diplomatic priorities away from East-West issues would also square with the call Mr Gorbachev has revived for the Soviet Union to make itself a model for the Third World.

But at present, as Mr Gorhachev knows all too well, the Soviet Union, particularly its economy, is no model for anyone. He has already outlined the changes he wants—streamlining of central planning, more autonomy for enterprises, better quality in manufactured goods and less waste in raw materials, pay linked more to results and so on. Most of these reforms bave been tried before, notably in the mid-1960s and late 1970s, but came to little. Mr Gorbachev is no radical. He is not a market socialist, or a believer in freer prices or in the creation of even a tiny private sector. It is because he is largely trying reforms which have failed before that he needs to have unquestioned authority. The message from Moscow this week is that he has it.

Self-regulation in the City

BRITAIN'S new investor protection agencies moved ioto action yesterday evening by staging their first formal meeting witb representatives of tbe financial services industry.

The Securities and Investments Board and its associated body, the Marketing of Investments Board Organising Committee, are anxious to impress on the financial community that time is short for the formation of new self-regulating orgaoisations (SROs) if they are to he in a suitable state for formal recognition before the investor protection legislation comes into effect.

On the present timetable, the SIB and the MIB (if it is set up as a separate body) will acquire statutory powers some time in the late autumn of 1985 and the legislation will come into full effect at the beginning of 1986.

It is intended that the hodies will operate in practice largely through SROs. There will he provision in the legislation for direct authorisation of firms or individuals by the hoards. But it has always beco clear that such direct authorisation could not be allowed to be a soft option, and yesterday the SIB and the MIBOC emphasised that it could turn out to be significantly more expensive than membership of a recognised SRO.

Pressure

The boards do not wisb to see a proliferation of SROs. At the same time, the nuober of suitable established bodies is rather small, especially in the MIB's territory of life assurance and unit trusts. In this field tbere are various trade associations such as the Association of Britisb Insurers, the Unit Trust Association and the British Insurance Brokers' Association, and one statutory body, the Insurance Brokers' Registration Council (IBRC).

It is possible that the gap could partly be filled by the National Association of Securities Dealers and Investment Managers (NASDIM) but there could be pressure on some of the other organisations to undertake the considerable steps needed to turn themselves into acceptable SROs. The IBRC is also a candidate, but primary legislation would be required to convert it into an SRO, and its life assurance and general insurance functions would need to he separated.

In the direct investment area to be regulated by tbe SIB the SROs already in existence or in the process of formation are tbe Stock Exchange, NASDIM and the Association of Futures Brokers and Dealers. It is possible that the list may end there if these bodies extend their coverage, but the SIB is conscious that some sectors are at present supervised very tbinly, if at all.

Tbe types of activity causing concern to the SIB include investment management, dealings in foreign securities, Eurobond trading and corporate finance (including the takeover panel, the position of which has been under intensive discussion for some months). There is also the question of regulating the so-called over-the-counter markets in securities separate from the Stock Exchange.

Demands

So far the hig clearing and merchant hanks have heen slow toto respond to the regulatory challenge, perhaps understandably in view of all the other current demands on the energies of their managements. In some cases their investment management offshoots have joined NASDIM, hut little has been beard of the suggestion at the time of the Gower report on investor protection that the Accepting Houses Committee might be willing to turn itself into a self-regulatory body.

The point the SIB was making to financial services industry representatives yesterday was that it will take at least a year for a new SRO to set up a secretariat and equip itself with all the necessary parapbernalia of rute books, codes of conduct, disciplinary procedures and compensation schemes.

The Government's approach to investor protection has been firmly oriented towards self-regulation, albeit within a statutory framework. By definition, this requires a very substantial input of resources by the financial services industry itself. It will now depend very much on the response of the practitioners whether the approach can work successfully.

World tyre industry

A rare interview with the Michelin Man...

Paul Betts and Ian Rodger report on the French company's new-found confidence

Francois Micbelin: "Nous sommes pneumatiques."

IT IS difficult to approach Michelin — hoth the man and the company — without some feeling of awe.

The company is one of few in the world which has single-handedly transformed an industry hy a revolutionary invention. In this instance, it was the radial tyre, introduced hy Michelin in 1946 and now almost universally adopted on cars and trucks because of its superior handling qualities and durability.

As for the man, Francois Michelin, who at 59 still carries the modest title of "gerant" (manager), he is famous for his indifference to the worldly wbirl. He would not allow General de Gaulle into his factories and he steers well clear of the crowd of civil servants, bankers and industrialists who consort to run France. His interview with tbe Financial Times last week at the group's headquarters in Clermoot-Ferrand was the first he had given to any newspaper in six years.

But times are changing. Michelin had the tyre industry hy the tail for nearly three decades because of its development of the radial. Now its rivals bave caught up, and the group is in a hard, global hattle with U.S. and Japanese rivals. Perbaps *le gerant* has decided that Michelin needs more understanding from tbe media and tbe financial markets if it is to retain tbeir support.

"We are becoming a normal company," is the way M Michelin explains it. "If I had revealed our position 10 years ago, it would have sounded spectacular. But we know it did not represent the future. We had no competition then. Now it exists. Imagine Napoleon with tanks. Well, we had tanks for a long time, and the opposition did not."

M Michelin, a tall, gaunt man wbo cuts a figure reminiscent of Jacques Tati, talks like that. He takes time to think, then speaks clearly and to the point, amplifying his ideas with simple, vivid images often delivered with a mischievous grin on his cheruhic face.

Question: "Is it true tbat you received subsidised interest rates from the French Government on a recent loan?"

Answer: "No. But we would like to be treated like the Soviet Union."

Question: "Where do you look most for improvement in the near future, in product development or in manufacturing processes?"

Answer: "Whicb of your legs do you tbink is most important?"

M Michelin talked to the FT for several hours in a botel meeting room. There was no question of our visiting tbe group's factories. Even so, the secrecy-conscious *gerant* sheepishly checked the next room, apparently to make sure no one was eavesdropping. He was accompanied by the group's finance director, M Behrouz Chahid-noural, the production director, M Jean Gorce and the research director, M Jean-Claude Gozard. They obviously work closely together, a small team managing in the dedicated, unpretentious way of a deeply rooted provincial enterprise. Setting the tone, M Michelin drove his own plain saloon car to the meeting.

But the well ordered calm of Michelin's life was hadly disrupted in 1979 and the group has not yet totally recovered.

Having gradually assumed dominance in the European tyre markets in the 1950s and 1960s, Michelin set out in the 1970s to conquer North America. For a *small French company* that was about one-fifth the size of Goodyear, the U.S. market leader, this was an astonishingly ambitious thing to attempt.

But the U.S. tyre makers, in a classic ahuse of market power, had heen postponing the implications of radial technology as long as possible. Tbe problem with radials, from the manufacturer's point of view, is that they do not wear out as often as conventional tyres, which means fewer replacement sales. They are also more difficult to make, as became apparent when Firestone had to recall almost the entire production of its 500 model in 1978.

Michelin seized the opportunity, and started attacking the North American market in the late 1960s. But it soon realised that General Motors, Ford and Chrysler would only put Michelins on their cars and give the company a vital bold on the "original equipment" market, if Michelin tyres were made in Nortb America. The company swallowed hard, and plunged in in with investments of over $1hn to build eight plants in the U.S. and Canada.

The group's total output quadrupled in ten years, and for a wbile it looked like nothing would stop it. But the U.S. competitors caught up and then, in 1979, the market turned down and Michelin was caugbt with vast excess capacity. To make matters worse, the dollar soared against the French franc, and the company had to service its substantial dollar horrowings with even larger amounts of francs.

The Michelin directors admit today that they were not accustomed to having to worry ahout things like inventory levels and cash flow, and that it was a long time hefore they started to carry out the necessary surgery. "A racehorse cannot be changed into a work-horse," M Michelin notes wryly.

In tbe three years to tbe end of 1984, total losses exceeded FFr 8bn (£627m), and this year the company expects to do no better than break even. Factories have been closed in Britain, Italy and Belgium and many others have been rationalised. The workforce has been cut from 137,000 in 1980 to 110,000 today, as automated machinery has been hrought in.

Stocks have been reduced from over 44 per cent of turnover three years ago to less than 34 per cent. Output per worker bas doubled in the past decade and rejection rates bave dropped by a factor of 10. But tbe group's net borrowings of roughly FFr 30hn are still three times the level of shareholders' equity. With the company restored to a position of approximate breakeven in its current business year, the directors are now making a start at rebuilding the equity through a FFr 500m convertible bond issue, but it is counting beavily on retained earnings to bring its equity back up to about a third of total capital.

> 'If we had not gone to the U.S., we would be dying,' M Michelin says bluntly

The bad years have left scars. People even wondered if Michelin would survive. Competitors nourisbed the doubts with insinuations about the fading of its technological edge, its slowness in responding to market trends and problems with a new product.

It is true that Michelin was slow to introduce an all-weather tyre, which hecame very popular in those parts of North America with severe winters. But the company still believes that this tyre makes too many design compromises.

It is olso true that its TD low profile tyre has been a market flop. But this is not hecause of any inadequacy. Its qualities have been widely praised. The problem is that it has a newly shaped bead that has to be mounted on a specially shaped wheel. Car makers have been reluctant to adopt it until there is more than one source of supply and, so far, Michelin's competitors have refused to go along with the new design.

The Michelin directors point to other recent achievements to show that they are getting value for the 5 per cent of turnover they put into R & D. Probably the most important is the first radial tyre for aeroplanes, introduced two years ago. It is much lighter and tougher than conventional tyres, so airliners can increase payload wbile reducing the risk of tyre failure. It has recently been accepted by the U.S. Air Force for the F-15 fighter.

The company has also established itself as the clear number two in the car and truck tyre markets in the U.S. It claims ahout a 10 per cent share in the new and replacement car markets, second only to Goodyear's 15 per cent. Its penetration is even greater in heavy truck markets where tyre durability is tested to the full. It has a 20 per cent share on new vehicles and 17 per cent on replacements. In radial replacements alone, it leads the market with a one-third share, well ahead of Goodyear's 26 per cent.

In Europe, it is the market leader in every country, with an overall share of about 40 per cent on new cars and 60 per cent on new trucks. "We are like a tyre (Nous sommes pneumatiques)," M Michelin says, "supple and strong."

And the company is still totally and exclusively devoted to tyres and wheels. Most of its competitors bave diversified in an attempt to level out tbe volatile automotive industry cycle, hut Michelin will not follow. Today, about 95 per cent of its revenues come from tyre sales. The rest comes from wheels and the admirable maps and guides.

M Michelin has thought a lot about the prospects for the tyre business, but has concluded that the future of motor vehicles is good, and motor vehicles will always need tyres. "You will always need a spring between your hottom and the road, and air will always by the cheapest spring," he says.

He is also confident that the complex composition of rubbers and steel that make up today's tyres will be hard to replace. A few producers are trying to develop injection moulded polyurethane tyres, hut M Michelin is sceptical. "Tbe most resilient species on earth bave been tbose with skeletons," he says in a typical envolee. "It is very difficult to find a single material that can be both flexible and rigid."

Also, radial tyres are still improving. In the past five years, Michelin claims to have extended the life of its tyres by about 5 per cent, reduced their resistance to rolling by 30 per cent and reduced their noisiness. New materials promise further improvements.

Michelin frequently develops products related to wheels and vehicle suspension systems, but it sells the technologies to others, preferring to concentrate on tyres. "This is a fantastic business," M Michelin says. "There are still so many areas of possible research we don't need to diversify. And our customers are ruthless at exposing our weaknesses."

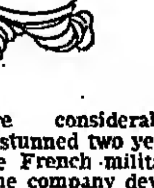
He also believes that the need for development plays to the company's strength. "The state of our markets will not enable everyone to pay for the necessary research," he says. A shake-out has already begun in the world tyre industry, with the sale last year of Dunlop to Sumitomo. Goodrich and Firestone have abandoned the viciously competitive new car markets of the U.S. and Europe respectively.

"Anyone who gets out of the original market is condemning himself to death in the medium term," says M Behrouz Chobid-nourai.

But Michelin, thanks to its investments in North America, has a new confidence. "If we had not gone to the U.S., we would he dying," M Micbelin says bluntly. Instead, he sees the company as a true multinational with not only sales and production in many countries, but also R & D. "We acquire ideas from everywhere," he says. The U.S. is the group's latest market, accounting for about a quarter of sales. France, by contrast, produces only 15 per cent.

Despite its global expansion, tbe company has stayed in Clermont and its officials still eschew the salons of Paris. Perbaps that helped it avoid nationalisation in 1982. M Michelin says he was very worried at the time, and still does not know why the group escaped.

But the problems of remaining a very private company in this rather interventionist country are considerable. Michelin was stunned two years ago when the French military objected to the company developing a military aviation tyre without permission.



M Chahid-nourai says various Government measures since 1981—stiffer foreign exchange controls, a shorter working week and longer holidays—have cost an extra FFr 1.5bn a year. The company's French operations remains stubbornly in loss. They may be profitable next year, if the local market improves.

But it would be unthinkable for Michelin to reduce its presence in France. M Michelin was so taken aback by the question that he was at a loss for words.

"Nunc est Bibendum," the company's slogan since 1898 when an artist first drew the Michelin man gulping down goblets of nails with inpunity, seems apposite. The company faces many obstacles and M Michelin appears unflinchingly determined to swallow them all.

Men and Matters

A drop of the hard stuff

Good news for devotees of the old-fashioned pub. Nearly 5,000 hostelries in England and Wales, all of which date back to 1904 or earlier, are sharing a Government handout totalling £1.65m.

The money is beld hy a curious institution known as the *Licensing Compensation Funds*. Back in 1904, Arthur Balfour's Tory Government brought in a Licensing Act to reverse the growth in the nation's pubs. In overstocked areas, some pubs were required to shut up shop.

To compensate the losers, tbe Government imposed a levy on the pubs remaining. The money raised went into various compensation funds up and down the country, which carried on paying out sporadically until 1983, when a puh in Derhy was the last recipient.

In 1981 the funds were wouod up by Act of Parliament. The joh of dishing out the surplus cash went to Peter Dickerson of accountants Howard, Tilly, who was appointed liquidator.

"It's been two years' bard labour," says Dickerson, "but it's amazing how much you learn about the pub trade in the process." The main problem was establishing who was eligible.

A numher of pre-1904 puhs applied only to he turned down. The most common reason, Dickerson says, was that they had heen licensed only to sell beer at tbe time of the Act. By changiog to a full licence later, they lost the pre-1904 licence needed to qualify.

Most of the casb bas gone to the hrewers, with the biggest single cbeque being for over £250,000. For owners of single puhs the pickings were more meagre—89 qualified, for an average of £270 each.

"I'll be glad when this by-election's over—if it's not posing with politicians it's answering opinion pollsters"

Band of angels

White Charles Saatchi establishes bimself as the biggest collector of contemporary art in the country, brother Maurice bas cbosen the theatre for bis arts investment. He is putting around £50,000 into *A State of Affairs*, a marital comedy, whicb opens at London's Duchess Theatre tomorrow night.

Maurice, the more extrovert of the two brothers who built up in a decade the largest British-owned advertising agency, saw *A State of Affairs* when it played at the Lyric, Hammersmith, and liked it enough to speed it on its way to the West End.

He is not the play's only backer. It will be the second venture of Lyric Hammersmith Productions, a company set up two years ago under the Business expansion Scheme to make the most of the Lyric. The company quickly raised £250,000, mainly from a hundred small investors, but with the theatre taking a £62,500 stake.

Lyric's first West End transfer was *Feiffer's America*, currently at the Donmar Warehouse, and coming in July is *The Seagull*, starring Vanessa Redgrave. The shareholders have been told not to expect a dividend for tbree years, but with Maurice Saatchi joining them so enthusiastically, this could be one group of angels with something to sing about.

6d well spent

How much are old paperbacks worth? The question becomes important as Penguin Books, pioneer in tbe field, prepares to celebrate its jubilee. Allen Lane's experiment in 1935 to bring good reading at sixpence a time to a growing public triggered a publishing revolution and those first ten Penguins will be republished this year in facsimile in a gift box at £14.95.

What would the originale be worth in mint or near mint condition? Auctioneers were cagey. Graham Baird of Sotheby's said: "It's difficult to put a price on them. That kind of book is bandied and reda and you don't find many in mint coodition. But recently a copy of Ariel (André Maurois's biography of Sbelley and the first Penguin to be published) sold in auction for £30 aod it wasn't in perfect condition."

But anybody who has the first ten in a pretty good state could expect to get about £1,000 for them.

Forthe record, the first lot, besides Ariel, were Hemingway's A Farewell to Arms, Eric Linklater's Poet's Pub, Susan Ertz's Madam Claire, Dorothy Sayers' The Unpleasantness at the Bellona Club, Agatha Christie's The Mysterious Affair at Styles, Beverly Nicols' Twenty Five, E. H. Young's William, Mary Webb's Gone to Earth and Compton MacKenzie's Carnival.

Hard driving

Tbe unremitting efforts of tbe Japanese Government to liberalise its trade have now ensured that at least tbree more foreign cars will be imported into the country this year.

Back in May, the Ministry of International Trade and Industry announced it was huying a Buick and a Mercedes for its viec-ministers.

Now the Government agency in cbarge of import promotion is to buy a Jaguar XJ6 for its chairman. The Japan External Trade Organisation (Jetro) will spend Y10.7m (£31,000) on the car, the first of British make in its fleet of eight vehicles for executive use.

In a statement apparently aimed at encouraging the discriminating Japanese customer to follow its example, Jetro said: "The Jaguar is used hy British Prime Minister, Margaret Thatcber, and is regarded as a luxury car and noted for its reliability."

But exporters clearly still have a long, hard road ahead. Foreigo cars account for less than 2 per cent of the Japanese market's 3m cars a year.

Happy ending

What a difference it should make to us all if the Governmeot gives the go-ahead for plans to create a £5m computer network in Parliament.

According to Computing newspaper: "This will involve rewiring the Palace of Westminster aod outbuildings aod supplying intelligent terminals to MPs."

To coin a phrase

Heard in a Cbelsea pub: "I don't mind people having money. What makes me sad is that they never use it the way people who haven't got it would use it if they had it."

Observer

EUROPE'S COMMUNIST PARTIES

"WE ALWAYS believed Eurocommunism was just a fashion that would have its heyday and then decline."

At their functional new headquarters in Lisbon, built by subscription from members, Portugal's communists feel vindicated by what has happened to their fellow parties elsewhere in Catholic Europe.

The Portuguese Communist Party (PCP) stuck by Moscow while the parties in Italy, Spain and France were declaring their independence in the 1970s, and was regarded by the others as an aberration. Today, of the four parties, which at their peak had a combined electorate of more than 21m and which still control their countries' largest (in Spain the equal-largest) labour organisations, the PCP is the only one still gaining votes and members.

The setbacks suffered by the Italian Party (PCI) in last month's local elections and in this month's referendum on wage indexation are the latest blow to what promised to be a regeneration of Communism under a reformist banner in Western Europe.

The Spanish Communists (PCE) have lost more than half their vote since 1979 and 60 per cent of their membership, now only 75,000. This is barely three times what the underground party had in Franco's time, and compares with the PCI's 1.6m card-carriers. The French party (PCF), the most secretive of all, lost a quarter of its voters in the last national elections and is now below that level, and may have lost as many as half its members.

As for the principles of Eurocommunism, the PCF has to all intents and purposes abandoned them. The PCE has changed its tone. The PCI—all there is left to show as a powerful force of new-look Communism—has also become less aggressive towards Moscow as it, too, has come up against internal problems and a membership that is slowly eroding and ageing.

In all three countries, the word "Eurocommuist" has quietly slipped out of the vocabulary.

Though the parties differed in their approaches, they agreed on the broad definition of what Eurocommunism meant. It had four main facets: independence from Moscow's foreign policy, especially after the invasion of Czechoslovakia by Warsaw Pact troops in 1968; adaptation to western-style democracy, respect for individual liberties, and adjustment to social changes; internal party democracy; and, an essential part of the appeal, the creation of a new "pole" of communism where communist ideas first grew up, in Western Europe.

When the three party heads, the late Sig Enrico Berlinguer, M Georges Marchais and Sr

Three European figures: (left to right) Santiago Carrillo, Georges Marchais and the late Enrico Berlinguer

Why there is a swing back towards Moscow

by David White

Santiago Carrillo, met in Madrid in March 1977, it was billed as the beginning of a major new movement, but in reality it was the beginning of the end.

"Where we went wrong," says Sr Andreu Claret, spokesman for the PCE and an avowed liberal, "was in presenting Eurocommunism as a decaffeinated version of traditional positions."

The break with Moscow, which the PCI began in the 1950s and even before, came late in the other two parties and created serious problems. Both got cold feet, in the French case quite drastically.

Of the three Communist parties that have taken part in post-war governments in Western Europe (in France, Italy and Portugal), the PCF is the one that has been in government most recently and longest.

The PCF, like the others, condemned the Soviet intervention in Czechoslovakia but backtracked soon afterwards. It did not firmly embrace the change in thinking until 1976 when it dropped Marx's tenet of the "dictatorship of the proletariat." But, says M Henri Fiszbin, then a Central Committee member, since forced out of the party, the move brought no real progress in the PCF.

The PCF was then on a joint left-wing platform with the Socialists. But by the end of 1977, when M Marchais broke off the union of the left, the party had concluded the Socialists were getting the better of it. The next year, the PCF lost its place as the biggest party of the left in France, and started its return to traditional values.

The swing back was confirmed by M Marchais' expression of "understanding" for the Soviet invasion of Afghanistan and by the resumption of expulsions from the party. Five years ago, M Marchais was still saying, "Eurocommunism exists, is alive and will stay alive," but today the only survival from Eurocommunism, remarkably, is M Marchais himself.

M Marchais' about-turns have left the PCF, once "the first party in France," at its lowest level since the 1920s. After the war, it polled 28 per cent, and in the 1960s and 1970s, with a legendary voter discipline, held on to 20 per cent of the vote. In last year's European election it was down to 11.2 per cent.

It is a moot point whether its withdrawal from the Mitterrand government a year ago, after three years, was more because of economic policies or because of internal problems.

The leadership has since hardened its position still further, and the party, hounded by a press which is virulently anti-Soviet, is acting like a fortress under siege.

Thwarted in government, deserted by its intellectuals, the party now seems to be banking on a recovery in the Soviet image under Mr Mikhail Gorbachev. Prospects for reform within the party are dimmer than ever. "It is well past the point of no return," says M Fiszbin.

The Spanish PCE has been through an even more dramatic collapse. The strongest organised force in opposition to Franco, just as the PCP was to Salazar, it expected a leading role in democratic Spain. But in the first elections, it polled a disappointing 9 per cent. In 1979, it reached almost 11 per cent with 1.9m votes, but three years later, with Sr Felipe Gonzalez's Socialists presenting a more modern and more reassuring image, it was down to less than 4 per cent.

Since Sr Carrillo resigned in defeat to make way for a young miner, Sr Gerardo Iglesias, the PCE has become a den of internal strife, with the formation last year of a breakaway pro-Soviet party and the recent exclusion of Sr Carrillo and his allies from the party's chief organs.

Its leaders came to the conclusion that it was damaging its own identity and unity by being so outspokenly critical of Moscow. At the outset, says Sr Claret, the PCE needed to show its credentials as a party in favour of democracy. "Now we don't need to demonstrate it any more." Relations with the Soviet party have been tense because of the latter's support for the new pro-Moscow splinter group, and no Spanish communist leader has been to Moscow for a long time. But the party now wants to "reconnect."

Meanwhile, Sr Alvaro Cunhal's PCP, like the Greek "exterior" Communist Party, has stuck with Stalin and still commands 17-19 per cent of the vote. It is more solid than any party in the country and continues to recruit in both industrial and rural areas. But then, its HQ looks out on shanties; Portugal's social conditions are that much more backward, and provide fertile ground.

The French historian Annie Kriegel, who wrote a book in 1977 saying that Eurocommunism would not work, argues that communism can only keep its hold in archaic societies. Eurocommunism was meant as a response to modern conditions but the parties have found it hard to adapt. Much of their base still lies in old, disappearing industries.

Above all, no alternative international movement to Moscow's has emerged. The Italian party—"no longer an international attraction," says Mme Kriegel, "just beautiful Italian remains"—never played the locomotive role it was seen as having. Relations between the parties foundered when the PCF, whose "Socialism in French colours" has distinctly nationalist overtones, opposed Spanish membership of the EEC. The joint movement never took off.

Oddly enough, the place where Eurocommunism may be now slightly in vogue is Britain. The British Communist Party was never statistically very important and now less so than ever with its membership down to less than 15,000. It split at a special party congress earlier this year.

It was the "Euros" who came out on top, but the old guard retain control of the Party's daily newspaper, the *Morning Star*. The "Euros," however, have had an influence way beyond their numbers through the Party's official monthly journal, *Marxism Today*, particularly in trying to bring together a broad left in opposition to Mrs Thatcher's Conservative Party. The journal has a certain cachet in the way that the Eurocommunists on the Continent used to have several years ago.

Training

Britain should follow the 'driving test' formula

By Ronald Dore

THE BELIEF in the supreme virtues of competition is much overdone in these days of Thatcherite marketism. But there are a good many nooks and crannies in our society where professional monopolies get away with murder. I mean those who manage to turn what must be a *certification* monopoly into a monopoly over *training* — and to grow fat on the proceeds.

In some areas their power has been resisted: the driving licence, for instance. The monopoly power to certify is retained by the state. It has to be, so that the driving licence can be made to have the same meaning everywhere. But still the driving schools have not managed to make it compulsory to take their courses first. How one gets a driving competence to pass is still left to individual initiative. All you need is the use of a car, a friendly, tolerant and iron-nerved relative, and £14.40 — a sum which actually covers the whole cost of testing — all salaries, the superstructure necessary to maintain standards, etc.

Fork-lift loaders may be a bit less lethal than cars, but manipulating them is a skill, and those who drive the things without it can waste millions of pounds a year. So what can a small employer do if he wants to give his employees an incentive to become really competent in their job, to give them recognition and a sense of pride and accomplishment?

He can contact a licensed tester — with powers delegated to him by the Road Transport Industry Training Board—who is also an instructor. He will give a three-day training course for two at £400. But you can be pretty sure they will get a certificate on the third day. (Flexible standards, you say? Perish the thought. The tester has to go back for a three-day recertification course at RTITB approved centres every five years.)

Alternatively, for £1,000 an employer could send one of his own employees on a course which would give *him* the right to train and to test. All that for a marginal improvement in the way his forklift loaders are driven — and a big increase in the probability that his now certificated employees will be poached by someone else. The deterrents are obviously strong.

Why do we create such deterrents at the expense of competence? Why not the driving test formula, separating testing and training? Regular circuits of testers available to test on employers' premises, or at special skill-test centres: training left to employers to arrange. Adequate and less costly.

Why is it not done that way? Why do we allow anyone to combine a monopoly over certification with a monopoly over teaching too? The answer lies deep in history. In countries with a strong state, like West Germany and Japan, and even the old New England states in the U.S., the *public* interest in competence — the shared interest in protecting ourselves from quacks and bunglers — is firmly looked after by the Government which organises a wide range of skill-testing and certifying systems.

> How one gets a driving competence to pass is still left to individual initiative

In weak-state Britain, only in extreme cases — when it is a matter of driving cars that can kill people or pharmacies that sell poisons — does the state step in. For the rest, British society is a jungle of competing, self-interested occupational groups organised into institutes, institutions, guilds, unions, associations, all claiming privileges of monopoly in exchange for protestations of their devotion to the highest ethical standards in service of the public.

The mystique of the arcane specialism, of self-regulation dedicated to the highest purposes, is a powerful one. In the case o fthe skill-training industry, the core of the mystique is the thesis that teaching is a very specialised skill. Any fool can drive a fork-lift truck, but only very special people, after very rigorous training can teach people how to drive a forklift truck. In fact, for most skill training, being a good teacher is 90 per cent patience and kindliness, and only 10 per cent specialist tricks of the teacher trade.

And yet the training industry manages to maintain its mystique and get away with its monopolies. It is ironic that it should do so in Britain where the generalist tradition of the Civil Service — like that of Japanese industrial management — rejects the inviolability of specialist professional preserves.

If we are serious about raising standards of occupational competence in this country, then we surely need to make much more use of the driving test formula — let public funds take care of testing its integrity and validity, and let individuals and organisations organise the training as best they might. New developments in distance-learning (and distance-testing with video-cameras) make it all the more feasible to do so.

At present it is all going the other way. Massive resources are going to support training; almost none for testing. The Engineering Council, for instance, might be making its own "bar exams" to establish a consensus on minimum competence levels. Instead, it is busy awarding licences to the teachers not the taught — "accrediting" internally — assessed courses up and down the country.

Likewise, the substantial funds—around £1bn—about to be committed by the MSC for the extended YTS scheme and approved by the Government on Monday. There is a danger that they, too, will end up supporting more and more internally-assessed modules on "work orientations" and "life skill enhancement" rather than, say, preparation for the City and Guilds numeracy test — or a forklift truck driver's certificate. Good for the training industry — but at the cost of confirming the widespread view of the YTS as what the French call a "formation parking" — "courses to keep 'em off the streets."

The author is assistant director of the Technical Change Centre.

Letters to the Editor

Interest rates and industry

From the Managing Director, Advance Tapes (UK)

Sir,—Some confusion appears to have arisen about the impact of high interest rates on companies following Mr Nigel Lawson's reply to the CBI's call for a 2 per cent cut in base rates. What confuses me, however, is that there should be a debate at all.

Of course, the Chancellor is right to stress the importance of keeping wage settlements, or more particularly the unit costs of labour, under control. Everyone who has the responsibility for running a company is only too well aware of this, and I can assure him that industrialists are making every effort to achieve the right results.

But even if this drive is successful, is it to be assumed that we still have to put up with unnecessarily high interest rates? Surely we need action in both areas. The difficulty is that while industry can continue to work on pay, it has no control over interest rates. Wage settlements will vary according to company circumstances — interest rates hit right across the board, whatever the current trading position of the business. What is more, they leave UK companies at a distinct competitive disadvantage when the base rate level is compared to those abroad.

I could appreciate the need for action earlier in the year, when there was a need to protect the £ and to save us from the possibility of another unhealthy dose of spiralling inflation, but the protection has gone on for far too long. Certainly there has been some improvement in manufacturing company profits, but this is from an historically very low base and it does not yet provide adequate means for the additional investment needed to sustain the recovery.

The Chancellor in any event cannot justify a simple comparison of cost to industry between interest and pay rates. The high interest rates are supporting a high pound, and it is this high pound that is causing the major problem for manufacturing, exporting, companies. For my own company the difference in the exchange rate, over the last six months, with the German Mark and French franc, is costing more per month than 2 per cent on the interest rates costs in a year. That is a cost to be faced, or the market has to be handed back to the Japanese, Americans, Taiwanese, et al. What is the point of a duty-free EEC when we have a Treasury policy that imposes a 10 per cent surcharge on our exports to our major market during 1985?

The CBI's case for a 2 per cent reduction in interest rates is amply justified and to dismiss it is to seriously undermine the basis that has been established for sustainable growth.

D. A. Ayres.
Vantage Works,
Abbey Meadows, Leicester.

Making the law accessible

From the Editor,
Court *Judgment* Service

Sir,—Rachel Davies' article (July 1) is timely and perceptive. However, she does not touch on the sheer difficulty, and at times downright impossibility, of ever actually discovering just what decisions and judgments have been given in what Courts. Even more difficult is the task of attempting to discover in advance just what cases, with what point of law as their subject matter, are due to be heard. Only the House of Lords stands apart from this criticism, but very very few cases are actually heard in their Lordships' House.

I have spent many years now trying to crack the system. Ultimately, it all comes down to getting "to know someone" who knows what is going to come up. That, however, works less than perfectly. I usually find myself going through rough-and-ready cardboard boxes in the Royal Courts of Justice to see what of interest has cropped up since my last voyage of discovery. Even this is much less than perfect, and means journeys to several rooms in the warren-like Royal Courts. I still manage to discover cases of no small value which have failed to catch the eye of the law reports and law reporters.

Do we not have computers? Cannot, therefore, someone in the Lord Chancellor's department now instigate the following plan? All cases to be heard in the Royal Courts should be immediately placed on a computer along with a brief (it can be done in 10 words) breakdown of what the case involves and the reporter from whom it may be obtained. The computer should also be indexed under subject matter (eg, unfair contract terms, employment, landlord and tenant). The display terminals should then be made available to the public in the entry hall of the Royal Courts. That way the administration of the law could find its way to the 20th century. That way, the law would become accessible to all.

R. G. Lawson.
56, Solent View Road,
Cowes, Isle of Wight.

Car pollution and engine size

From Mr E. R. Gurney

Sir,—The outcome of the Milan summit regarding the amendment of the Treaty of Rome has tended to obscure the provisional agreement reached, after much discussion, in Luxembourg on car engine size limitations for the various measures required to limit pollution. In particular, it appears that engine sizes below 1,400cc are to escape, and one is forced to ask why an engine size of 1,400cc has been provisionally agreed and not 1,300cc, which happens to be the engine size linked to insurance categories and, in the UK, also one of the bands for the tax scales of company cars.

The major UK manufacturers and assemblers, Austin Rover, Vauxhall and Ford and, on the Continent, Fiat and Volkswagen, have accordingly established their designs in a band up to 1,300cc.

Why then the 1,400cc limit? Of the French motor manufacturers, Renault has an engine size of 1,397cc and Peugeot has an engine size of 1,360cc powering Citroen, Peugeot and Talbot cars—both of these engine size limits representing the majority of the cars produced by these respective companies.

Yet again, the French negotiators have gained a significant victory over their competitors and it appears to make no difference whether it is a socialist or right-wing government in power. The men engaged on negotiating the points that really matter have done their homework and argue their case convincingly.

Mr William Waldegrave should not need, as is reported, to withhold consent pending further talks with the UK motor industry. He should have known the commercial advantage of negotiating a limit of 1,300cc and stuck to it at Luxembourg.

E. R. Gurney.
30, Milsom Street, Bath.

Black workers in South Africa

From the MP for Coventry SE (Lab)

Sir,—Currently black workers are being viciously treated by an ICI subsidiary, the AE & CI Chlor-Alkali and Plastics Company in Newcastle, South Africa.

The workers have been given an ultimatum to return to work with a wage increase to which they are opposed, or face dismissal this week.

The strikers, members of the South African Chemical Workers' Union, have stood firm for a living wage and against victimisations. They now face the prospect of management bringing in "scab" labour, defended by the brutal South African police.

AE & CI is 38 per cent owned by Anglo American Corporation, the huge South African monopoly. ICI in Britain, and Anglo American in South Africa like to present themselves as "enlightened" employers. Their response to the workers' demands in this dispute—like Anglo American's sacking of 16,600 mineworkers in April—gives the lie to this.

Sir John Harvey-Jones, chairman of ICI, is an SDP supporter —a supposed "moderate"—just as Anglo American has traditionally supported the "Progressive" Federal Party. What they are showing by their actions, is that when it comes down to the question of profit, the interests of all employers are the same—and that the SDP and PFP will defend those interests also. It is hardly surprising that Sir John, with a salary of £287,000 per year should be listed at No 8 in the Sunday Times league of "big bosses" (19.5.85). His last pay increase amounted to 68 per cent. Moreover, ICI's pre-tax profits rose by 67 per cent in 1983-84.

The actions being taken by AE & CI in South Africa reveal what the bosses would also do in Britain, if they could get away with it. No wonder the SDP is so rabid in its defence of anti-trade union legislation.

More than ever, British and South African workers need to join forces in order to defeat the attacks of the international capitalist class.

Dave Nellist
House of Commons, SW1

Commodity surpluses

From Mr O. E. K. Laband

Sir,—I would like to comment on Mr R. Stenton's letter June 29 on "commodity surpluses."

Sending surpluses to Africa on a long-term basis does Africa no service. Handouts or charity take away the dignity of the independent states, the dignity of the people, particularly the dignity and the way of life of the farmer who is capable, independent and proud. The aim must be to help to overcome the temporary setbacks, get back into production and where applicable give help with soil and water conservation.

If we did send all of our surpluses, the logistics of transportation and storage in the countries and the distribution to the needy would make this a very wasteful operation, to put it mildly.

Any supply of food must be on an emergency short-term basis, complete with full logistic support to get the "aid" to where it is required.

O. E. K. Laband.
Glenyro, Earlsferry-Elie, Fife.

FINANCIAL TIMES

Wednesday July 3 1985

BANK OF FRANCE SEEKS TO CUT BACK GROWTH IN MONEY SUPPLY

Paris imposes curbs on credit

BY DAVID HOUSEGO IN PARIS

THE Bank of France yesterday imposed a squeeze on bank lending among measures aimed at slowing down the growth in the money supply.

The more restrictive credit policy is to be achieved by forcing banks to increase the volume of reserves they hold with the central bank.

At the same time, the Government will accelerate its financing of the budget deficit through the bond market rather than through monetary creation. Foreign borrowing by French institutions will also be slowed down to offset the capital inflows which have been boosting the money supply figures.

The measures are aimed at bringing the growth of M2 money supply back within the upper limit of the target range for 1985 of 4 to 6 per cent. The Bank of France confirmed yesterday that over the last three months, M2 had been expanding at an average annual rate of 8 per cent, on the basis of provisional figures.

The new squeeze on credit comes in the wake of a 0.5 per cent cut at the end of last week in state-administered savings deposit rates and of certain subsidised credits. The apparently contradictory signals to the market reflect the divergent goals of the Government in seeking to bring down interest rates, with inflation, while at the same time to bring monetary growth under control.

Exempted from the tighter credit restrictions are new loans for housing – even though the pick-up in housing loans was one of the reasons for the unexpectedly large growth in M2.

M Pierre Bérégovoy, the Minister for the Economy, is seeking to protect small and medium-sized industry from the credit squeeze by writing to banks to remind them of the importance he attaches to the recovery in industrial investment.


M Pierre Beregovoy

Although no figures were officially disclosed yesterday, the Government will now seek to raise FFr 85bn to FFr 95bn ($9.1bn to $10.2bn) in the bond market during the rest of this year.

That accelerated programme of financing is expected to exert an upward pressure on long-term interest rates. Partly to offset that, the banks – which have been substantial borrowers in the bond market in the early part of the year to strengthen their capital base – will reduce their raising of long-term funds. But the effect – through the capital-to-lending ratio – will be to restrict further their lending potential.

The new credit restrictions come at a time when economic growth is stagnant and when the Government had wanted to encourage a pick-up in activity before the parliamentary elections in March. But it has instead given priority to containing money growth, which might have an impact on inflation and hence the health of the franc.

Sweden leading Eurobond borrower

By Alexander Nicoll in London

SWEDEN topped the list of borrowers in the Eurobond market in the first half of 1985 raising $3.24bn through 15 issues, ousting the World Bank with $3.18bn – traditionally the largest borrower in international bond markets – and the EEC with $1.96bn.

The European Investment Bank and Banque Nationale de Paris were fourth and sixth respectively, and other sovereign borrowers were Belgium, which ranked seventh, Denmark, Italy, Malaysia, Ireland and Spain.

The totals for the period, 959 issues aggregating $81bn, emphasised the growing importance of the Eurobond market.

British banks were among the largest borrowers as a result of a flurry of issues of perpetual floating-rate notes which counted as primary capital.

National Westminster Bank ranked fifth, with four issues totalling $1.52bn, in a table of the largest Eurobond issuers compiled by IDD Information Services and the Eurobond Letter. NatWest issued the largest perpetual FRN, at $1bn, and its other issues included a SwFr 300m bond issue with equity warrants launched last week.

The other three UK clearing banks as well as Standard Chartered Bank also featured in the top 25 Eurobond issuers thanks to their perpetual issues, made as a result of new Bank of England guidelines which permitted them to be treated as capital.

Figures compiled by the Eurobond Letter also showed that the Mercury Eurobond Fund, managed by UK merchant bank S. G. Warburg, achieved a 13.57 per cent annualised return in the first half of the year topping over 100 funds monitored.

Among other dollar-denominated funds investing in a variety of currencies, Orion Royal Bank's RBC International Income Fund came second with 11.38 per cent, followed by funds advised by Baring Brothers, GT Management and Banque Nationale de Paris.

A fund managed by Dresdner Bank led D-Mark multi-currency bond funds, with Crédit Suisse leading the Swiss franc table and Fidelity International Management ahead in sterling funds.

Credit Suisse First Boston topped the issue managers' table, running the books on 102 issues totalling $13.49bn. It was followed by Salomon Brothers with $4.8bn and Merrill Lynch Capital Markets with $4.7bn.

Eurobonds, Page 15

France looks abroad for new digital switching supplier

BY DAVID MARSH IN PARIS

FRANCE has contacted leading U.S. and Japanese telecommunications groups to explore diversifying purchases of digital switching equipment, thereby lowering reliance on supplies from the nationalised Alcatel-Thomson telephone group.

The moves by the Direction Générale des Télécommunications (DGT), the national telecommunications authority, illustrate how France is now taking a more pragmatic view about international electronics alliances, despite the Government's political preference for European link-ups.

The contracts have been made with AT&T, International Telephone & Telegraph and Nippon Electric of Japan as part of the CGT's policy of looking at all available equipment suppliers from abroad, officials said yesterday.

The DGT has made no secret of its fears that the telecommunications merger between the state-owned Compagnie Générale d'Electricité (CGE) and Thomson groups, announced in September 1983 and fully effective from July 1, would leave it dangerously dependent on e single supplier for its switching purchases.

For the same reason, it is also looking at the possibility of purchasing equipment from European companies, including Siemens and Italtel.

The French Government has been proposing to its European partners opening 10 per cent of its telecommunications market to outside suppliers, provided it was done on a reciprocal basis,

On the basis of switching equipment orders last year of about FFr 96m ($104m) divided up between CIT Alcatel, Thomson and the also state-controlled CGCT group – that would give foreign companies a potential French market of around FFr 1bn a year.

The interest shown by the DGT in possible U.S. or Japanese purchases is in strong contrast to the Government's policy of giving priority to European electronics collaboration.

Officials say that soundings made up to now have been technical and that the final choice of supplier would need political considerations too.

A decision to opt for U.S. equipment would appear inconsistent with President François Mitterrand's personal condemnation in 1982 of the switching link-up between AT&T and Philips of the Netherlands.

Significantly, however, the CGE group, which is now in charge of France's civil telecommunications activities, is currently in negotiations with AT&T about possible accords to give Alcatel-Thomson access to the all-important U.S. market.

One possible outcome – although fraught with political obstacles – would be for AT&T to help CGE to sell its modified E.10 digital exchanges in the U.S. in return for access to the French market for the AT&T-Philips grouping.

Officials say that one reason why the DGT is now taking an "extremely open" line about foreign deals is disappointment about failure of efforts to sell the E.10 to Britain

panese joint venture wit AT&T, Page 17

Gromyko elected President

Continued from Page 1

diplomat who defected to the U.S., and had no reason to praise him, wrote recently: "When I observed his performance at Politburo meetings in the early 1970s, it was even then difficult, if not impossible, for others to argue with him or challenge his views."

It is not clear if Mr Gromyko's departure from the Foreign Ministry is voluntary since his health is good. But the change is in keeping with the rapid promotion of a new generation of Soviet leaders by Mr Gorbachev.

Mr Gromyko played a significant role in supporting Mr Gorbachev against his rivals under Mr Chernenko and warmly praised him when nominating him for the leadership.

But the appointment of Mr Shevardnadze as Foreign Minister yesterday, taken together with the removal on Monday of Mr Grigory Romanov – last year a contender for the succession to President Chernenko – demonstrates that Mr Gorbachev has consolidated his authority faster than diplomats in Moscow thought possible. It also shows that he now has the political strength to carry out radical economic reform.

A further example of the speed at which Mr Gorbachev has moved to get a Politburo to his liking came yesterday when Mr Yegor Ligachev, a close ally of Mr Gorbachev, was appointed to a parliamentary post, indicating that he is now number two in the Soviet leadership.

The departure of Mr Gromyko, and the summit with President Reagan in November, will inevitebly increase Mr Gorbachev's involvement in foreign affairs.

UK to abolish capital gains tax on gilts

Continued from Page 1

the insurance companies' equity portfolios. Gilts which showed a capital gain would be held for at least 368 days so that they could then be sold free of tax.

"It was a case of heads I win, and tails the Chancellor pays 30 per cent of it," said Mr Robert Thomas, gilts partner of stockbrokers W. Greenwell, last night. He estimated that the majority of buying and selling of gilts by insurance companies, which was last year valued at £48bn ($63bn) of stock, arose from capital loss selling.

The change would therefore mean lower turnover, he said – and less stockbrokers' commission in a market where broking competition is set to intensify sharply next year.

Some insurance company investment managers were sanguine about the changes pointing out they would simplify the administration of their portfolios. "We will be realising losses less but also selling our gains more within a year," said Mr David Simpson, investment manager of Standard Life.

But according to Mr Michael Newmarch of the Prudential Assurance: "This is going to make our equity portfolios even more unmanageable. In the past we could realise a capital gain there and offset it with a capital loss on gilts. Now we won't be able to sell anything."

Because of the capital losses they generated in the gilts market between 1970 and 1982, hardly any insurance companies ever had to pay CGT in this period. Even when there has been no downward trend in the gilt market, insurance companies have been able to generate capital losses from short-term price fluctuations and from shifts in the relative yields of securities of different maturity dates.

In a parliamentary answer yesterday, the Chancellor explained that the Government feared that the tax loss from such gilt trading would be increased by the introduction of comprehensive inflation adjustment provisions for CGT which are contained in the Finance Bill currently passing through parliament.

Even a gilt which was bought and sold at par within a year would have generated an allowable capital loss under the new indexation provisions, provided the retail price index had risen during the period of ownership.

The last-minute change before the passing into law of the Finance Bill, however, casts doubt on Mr Lawson's claim in his budget speech in March that the reforms to CGT he announced then, after a 12-month review, put the tax "on a broadly acceptable and sustainable basis." The Treasury said last night that the change was considered "a sensible evolution of policy." But one insurance company manager said: "This change opens up once more the question of further reform just when we were thinking the matter was closed."

The exemption will apply only to gilts sold on or after July 2 1986, allowing investors to realise capital losses over the next 12 months. In addition, the indexation provisions included in the Finance Bill will be amended so that they no longer have any application to the CGT on gilt-edged securities or other bonds,

World Weather

		°C	°F
Ajaccio	S	27	81
Akrotiri	C	28	82
Algiers	C	25	77
Amsterdam	C	24	75
Athens	S	30	88
Bahrain	S	38	100
Bangkok	C	31	68
Barcelona	F	28	79
Beirut	S	30	86
Belgrade	C	26	79
Berlin	C	20	68
Biarritz	F	24	75
Blackpool	F	18	64
Bordeaux	S	30	86
Brussels	S	25	77
Budapest	R	16	61
B. Aires	C	10	50
Cairo	S	34	93
Cape Town	F	25	77
Caracas	R	27	81
Casablanca	F	24	75
Copenhagen	C	18	64
Corfu	S	27	81
Dublin	S	19	66
Dubrovnik	S	25	77
Faro	S	22	72
Florence	–	—	—
Frankfurt	S	24	75
Funchal	S	23	73
Geneva	C	28	82
Gibraltar	F	25	77
Guernsey	S	21	70
Helsinki	C	13	55
H Kong	C	31	88
Innsbruck	–	—	—
Inverness	F	10	64
Istanbul	S	23	73
Jersey	S	23	73
Jo'burg	S	10	84
Las Palmas	S	25	77
Lima	C	20	68
Lisbon	S	27	81
Locarno	S	29	84
London	C	21	70
Los Angeles	S	42	108
Luxembourg	F	17	63
Madrid	S	38	100
Majorca	S	35	95
Malaga	S	30	86
Malta	S	28	82
Manila	–	—	—
Miami	C	31	88
Milan	S	28	82
Moscow	C	10	84
Munich	C	16	61
Nairobi	C	21	70
Naples	S	27	81
New Delhi	S	39	102
New York	C	26	79
Nice	F	23	73
Oporto	C	18	64
Oslo	C	21	70
Paris	S	26	79
Prague	C	16	61
Reykjavik	C	10	50
Rio de J'o	C	32	90
Rome	S	32	90
Salzburg	–	—	—
Seoul	S	31	88
Singapore	S	33	91
Stockholm	C	17	63
Strasbourg	S	22	72
Sydney	S	19	66
Taipei	C	31	88
Tangier	C	21	70
Tehran	–	—	—
Tel Aviv	S	28	82
Tenerife	S	25	77
Tokyo	D	26	79
Toronto	R	23	73
Tunis	S	33	91
Valencia	S	29	84
Venice	S	25	77
Vienna	R	25	77
Warsaw	F	17	63
Zurich	F	22	72

Readings at mid-day yesterday:

C–Cloudy D–Drizzle F–Fair Fg–Fog R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Airport move attacked

Continued from Page 1

place and denied there was any timetable for the remainder to be released.

In order to underline that such a possibility would never again be considered, Mr Rahin said, he had to make clear to governments that they would be making a serious mistake if they thought that after failing to take appropriate security measures for their aircraft and institutions, Israel would get them off the hook by releasing its prisoners.

The Islamic Jihad Organisation, which has claimed responsibility for a number of terrorist attacks on Western targets, said yesterday that the hijack had been a great victory for the oppressed and a "clear submission by America and Israel." It warned that there was "no justification for picking a fight after such a defeat. You must know that our men are more powerful than America's fleets and the pulses of our fighters beat faster than your missile launchers."

● Mrs Margaret Thatcher, the British Prime Minister, yesterday expressed her "joy and relief" at the safe release of the American hostages in a telegram to President Reagan. But she appeared to give only qualified support to U.S. efforts to cut air services to and from Beirut.

Thatcher plays down differences at EEC summit

By Margaret van Hattem in London

THE BRITISH yesterday set about mending fences after the abortive EEC summit in Milan at the weekend, playing down the differences between itself and the seven member states which want to consider amending the Treaty of Rome.

Prime Minister Margaret Thatcher made a generally conciliatory statement in the House of Commons, stressing the degree to which decisions taken at the summit reflected British thinking.

There was confidence in government circles that the proposed intergovernmental conference to consider amendments to the treaty could be steered towards producing a "fairly harmless package – beautifully gift-wrapped" to which Britain could agree.

Mrs Thatcher's statement ended on a slightly waspish note. The UK would be represented at the conference, she said, "and will make a constructive contribution on the basis of practical proposals rather than vague aspirations." She also quoted, with some relish, from German and French newspapers which shared her impatience with the other EEC heads of government.

In reply to questions, however, she left open the possibility that Britain might agree to certain amendments to the treaty. "We shall have to consider what is put before us," she said.

Mrs Thatcher stressed that the summit decision to give priority to removal of physical and technical barriers to trade, to a free market in transport and financial services, to liberation of capital movements, and to freedom of establishment for the professions, was in line with British thinking.

Furthermore, the decisions on political co-operation reflected both British proposals "and a Franco-German text which was very similar."

She regretted the "unnecessary delay" over proposals to speed up decision-making, but, while repeating that Britain saw no need to amend the treaty, said it would "naturally" attend the discussions and continue to press for practical steps "which do not impair our ability to safeguard our national interests."

The setback, she added, was "only temporary – we should not be too depressed."

Commons reaction to the statement was less heated than might have been expected. On the Conservative side, the opportunity to let off steam during Monday night's EEC Finance Bill debate appeared to have taken the sting out of criticisms aimed by the anti-EEC members.

The abrasive tone adopted by Mr Neil Kinnock, Labour leader – who accused the Prime Minister of a "clumsy failure" in getting the mood of the Milan summit "so spectacularly wrong" – succeeded only in goading Conservative members of Parliament into loud heckling and a more overt display of support for Mrs Thatcher.

Indications are that British negotiators at the inter-governmental conference – possibly headed by Mr Malcolm Rifkind, Foreign Office minister of state – will try to steer other participants towards a package Britain can accept.

Before the summit, it was pointed out yesterday, Britain had indicated it had no fundamental objections to the conference. It is also felt that anything the French are prepared to accept in the way of amendments to the treaty, Britain can probably accept, too.

Commons debate, Page 8

UK investment body urges self-regulation

BRITAIN's financial services industry was last night urged to formulate proposals for new self-regulatory organisations by the end of the summer in order to meet the deadline imposed by the Conservative Government's proposed investor protection legislation, writes Barry Riley in London.

Aproximately 100 representatives of a broad spectrum of financial institutions attended a briefing last night by Sir Kenneth Berrill, chairman of the Securities and Investments Board (SIB), the body newly established to regulate Britain's investment markets.

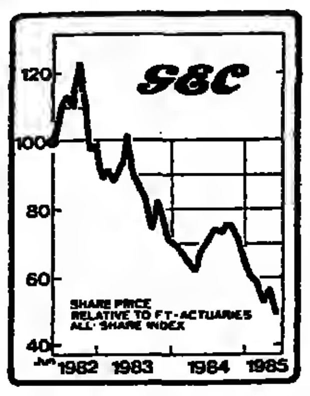
He told them that he expected the SIB and its parallel body, the Marketing of Investments Organising Committee (MIOC), which focuses on pooled investment products such as life assurance policies and unit trusts, would receive powers to recognise self-regulatory organisations in the autumn of 1986.

Editorial comment, Page 12

THE LEX COLUMN

No ribbons for the General

Anyone who was relying on GEC to set the electronics sector moving the right way again will have to look further than yesterday's figures, showing a mere 8 per cent rise at the pre-tax level to £725m. Admittedly better than last year's complete standstill, GEC's almost static trading performance does little to recharge confidence in the sector.



As it happened, GEC's share price – unchanged at 168p – gave one of the steadier responses to the results, no doubt because the jobbers had an eye out for the group's next raid on its own equity. Having been a substantial buyer at an overall price nearly 50p higher than it would have to pay today, GEC can be expected to smooth things out by further purchases. That prospect at least puts some sort of floor under the shares, presumably at about 160p. Yet the doubt whether there is to be more than a modest profit improvement correspondingly limits the amount of headroom; if GEC can make £760m this year, rating the shares in line with the market would still leave them almost exactly where they are now.

Industrially, the major success is again Marconi – representing a third of group sales – where profits are up by almost a fifth. Moreover, there has at last been a worthwhile return from GEC's investment in A. B. Dick. Yet these pluses are counterbalanced by painful news from telecoms, where the transition to System X and troubles with computers cost about £30m in all. Disappointingly – on a long-term view – the return on GEC's cash resources was its strongest source of profit improvement, again vindicating its reputation as a cash manager at the expense of its image as industrial investor. In the light of acquisitional disasters elsewhere in the sector, GEC's cautious investment policy is now looking singularly astute. But the sliding share price suggests that the market has shelved its more ambitious hopes for a second wind.

Insurance

UK insurers are being remarkably phlegmatic about the first pre-tax loss since the formation of their club – and probably, for that matter, since the invention of the earthquake. Of course, had other insurers been inclined to follow Eagle Star and take investment appreciation through their revenue account, last year's £85m pre-tax loss would have been the most handy of profits. No quoted member of the ABI (as it was yesterday renamed) seems inclined to follow suit: but with balance-sheet values still swelling to support growth in premiums without hurting solvency margins, there must remain a temptation to underwrite purely for cash flow.

From the association's report, it does seem as if the UK and U.S. underwriting cycles concided in their troughs last year and the only way forward is upwards. The 23 per cent increase in U.S. underwriting last year indicates how premium rates have hardened even if the recovery year for the composites has been pushed back to 1986–87 or later.

Meanwhile, the UK motor account shows how suddenly and inexplicably rate increases can be swamped by claims frequency. Even so, the composites should find their underwriting losses falling just at the point when fat investment margins begin to slim. Who knows, they might even underwrite at a profit.

Taxing bonds

The Government's abolition of capital gains tax on gilt-edged and corporate bonds was long overdue. Not only will it make life simpler for investors – it will also remove the distortion created by institutions deliberately making losses on their gilts to provide an offset for their gains elsewhere. Under the old tax scheme, which exempted bonds from CGT if they were held for more than a year, fund managers sold within 365 days if they could make a loss and after a year if they showed a gain. Either way, the loser was the Inland Revenue.

Given that yesterday's measures will pour more money into the taxman's pocket, it was curious to see the gilt market reacting enthusiastically. The whole market gained about ¾ of a point, with index-linked and low-coupon bonds – where capital gains arise most often – rising even more. The immediate feeling was that turnover would increase, although it is hard to see why a lower level of tax-offset deals should not more or less equal the higher trade in gilts held for less than a year.

The most vociferous protesters will be insurance companies, who use gilt losses to offset equity and property gains. But since the losses often arise from switching which would not have made sense without the tax angle, gross funds who have been standing on the other side of the trades will no longer be able to make such easy money either. It is unlikely, though, that either side's complaints – if they dare complain at all – will bend the ear of the Government. Their case is not a strong one.

Investors in Industry

The new name and the new image have successfully raised the public profile of Investors in Industry but they have yet to lift the profits. The year to March has produced pre-tax profits almost unchanged at £38.6m, while, taking investments at their market value, the post-tax return on equity has slipped from 5.4 to 4 per cent. All 3i's clearing-bank shareholders, with the exception of Midland, achieved more than double that return in 1984.

That might not matter much if the banks were content to let 3i continue along its present path, extending long-term finance for a social as well as a commercial purpose. But, as the 3i chairman implicitly acknowledges in his statement, the company's role may soon be called into question by the plans for a public listing. While 3i is a highly professional organisation, there is not much doubt that its resources could be more profitably redeployed. Yet it would be a great pity if, in response to pressure from a broader body of shareholders, 3i ever felt obliged to forsake an investment in a small company for the safe returns of the gilt-edged market.

SECTION II – COMPANIES AND MARKETS

FINANCIAL TIMES

Wednesday July 3 1985

AGNELLI SEEKS RATIONALISATION IN CAR INDUSTRY

Fiat backs Europe-wide ventures

BY ALAN FRIEDMAN IN TURIN

SIG GIOVANNI Agnelli, chairman of Fiat, Italy's largest private sector group, yesterday described as "necessary" a Europe-wide joint venture agreement in the car industry. Fiat is now in talks with Ford Europe designed to achieve such an agreement.

Speaking after Fiat's annual meeting in Turin yesterday, Sig Agnelli said that Fiat and Ford Europe, each with 12 to 13 per cent of Europe's car market, could become an important combined force with a quarter of the overall European market share.

He said: "Wa need to achieve economies of scale. A rationalisation of the European car industry is necessary. Whether we can achieve a successful marriage of Fiat and Ford Europe remains to be seen."

Sig Agnelli said that Fiat group sales would rise by 6 per cent this year, which would mean total 1985 turnover of more than L25,700bn ($13.3bn). He also predicted higher 1985 profits. Last year, the group more than doubled its net consolidated profits to L627bn.

The Fiat chairman declined to say when the Fiat-Ford agreement might be reached, although Sig Cesare Romiti, Fiat managing director, in a recent statement did not

Sig Giovanni Agnelli

rule out the possibility of a deal before year-end.

Sig Agnelli said the European motor industry as a whole was losing $1bn a year, while the U.S. car industry last year earned $10bn and Japanese car makers earned $4bn. The Fiat chairman said that Europe had surplus productive capacity of 2.5m cars a year, representing half of global over-capacity.

Sig Agnelli declined to comment on what form the Fiat-Ford agreement might take – market speculation bas centred upon a 50-50 joint venture between Ford Europe and Fiat's car division, which last year had revenues of L12,878bn, or 54 per cent of group sales.

The need for a Europe-wide joint venture stemmed from the weakness of the European car industry and the need to become more competitive with U.S. and Japanese car makers. The Fiat chairman ruled out the possibility of any venture with a Japanese company, saying Japanese industry represents "a different civilisation, a different world, a different industrial tradition."

Referring to the Fiat-Ford talks, Sig Agnelli said that Fiat's productive systems were better than Ford Europe's and that Fiat bad more experience in small cars than the U.S. company.

On prospects for this year, the Fiat chairman said total group debt would remain the same as last year, around L4,000bn. This year's total investments would be L2,500bn. Last year, Fiat spent L1,486bn on capital expenditure and L669bn on research and development.

Commenting on EEC measures to limit car exhaust emissions, Sig Agnelli said that Fiat was ready to accept any anti-pollution measures but warned that they would result in higher priced cars.

Asked for his view on the controvery over the attempt by the IRI state holding group to sell its SME food subsidiary to Sig Carlo de Benedetti's Buitoni, which has run into political opposition, Sig Agnelli said there was no justificatioo for the Italian state owning a food company and that he was "indifferent" as to who buys SME. He added that in his view privatisation functions better in the UK than in Italy and that, as far as be was concerned, "the more state companies which are sold the better."

When asked whether Fiat would consider a joint venture with another European car maker if the Fiat-Ford talks failed, Sig Agnelli responded: "When I go out shooting, I think of one bird at a time."

Commenting on the recent Milan summit, which resulted in a 7–3 split in favour of convening an inter-governmental conference to amend the Treaty of Rome in order to improve Community decision making, Sig Agnelli said the conference idea "is a modest way of proceeding, but the most we can achieve today."

He praised Italian political stability over the past two years and said that recent elections in Italy had reinforced government stability.

UBS to consider W. German expansion

By John Davies in Frankfurt

UNION BANK of Switzerland (UBS) expects to decide by the end of this year how it intends to develop in West Germany.

Dr Nikolaus Senn, chief executive, said yesterday that UBS did not feel "in any burry" to decide whether it would take over an existing West German bank or set up a new organisation of its own.

UBS is widely rumoured to have been sounding out West German banks for possible acquisitions but Dr Senn declined to disclose any details.

As a sign of the importance it attaches to West Germany, UBS's bearer shares and participation certificates were introduced on the Frankfurt stock market yesterday through Dresdner Bank, West Germany's second largest bank.

The other two big Swiss banks – Crédit Suisse and Swiss Bank Corporation – have already come out into the open with expansionist moves in West Germany.

Crédit Suisse took over Grundig Bank, based at Fürth in Bavaria, at the beginning of this year and recently bought into Effectenbank Warburg in Frankfurt.

Swiss Bank Corporation has announced that it plans to set up a fully fledged subsidiary in Frankfurt this year.

Dr Senn said that it was misleading to talk about a Swiss "invasion" of the West German financial scene as if the Swiss had only just discovered it.

UBS had been active in West Germany for decades in co-operation with local banks, but wanted to expand its activities abroad and to keep pace with the internationalisation of the world's major financial markets.

Nuovo Ambrosiano initiates plan to seek Milan listing

BY OUR MILAN CORRESPONDENT

NUOVO Banco Ambrosiano, the Milan-based successor to the late Roberto Calvi's Ambrosiano group, is asking Euromobiliare, the investment bank, to place privately its 47 per cent of voting shares in the La Centrale financial subsidiary. The placing will be a key step io Nuovo Ambrosiano's plan to roerge with La Centrale and seek a quotation on the Milan bourse later this year.

The merger involves a highly complex operation which at the finish should see a quoted Nuovo Ambrosiano with total capital of around L1,000bn ($513m), against a curreot capital base of L754m, and some 60,000 shareholders.

Among the latest develooments in the changing shareholder structure of Nuovo Ambrosiano, Credito Romagnolo, a private bank, is to sell balf its 6.1 per cent stake to the group of Veneto region banks which has recently become the largest pool of Nuovo shareholders. The Veneto banks at present hold a total of 17.5 per cent of Nuovo – this will rise to 21.5 per cent after the Romagnolo acquisition.

The Veneto banks were last year blocked by the Bank of Italy from acquiring a lucrative 44 per cent-owned stake in Banca Cattolica del Veoeto from Nuovo. It was this ruling which forced Nuovo Ambrosiano to reconsider and go ahead with the La Centrale merger plan.

NUOVO AMBROSIANO SHAREHOLDERS

	Stake (%)
Banca Popolare di Milano	16.2
Istituto San Paolo di Turino	13.5
Banca Nacionale del Lavoro	13.5
Credito Romagnolo	8.1
San Paolo di Brescia	8.1
Popolare di Verona	8.0
Credito Emiliano	4.0
Banca Antoniana	3.3
Popolare di Padova, Treviso, Rovigo	3.2
Popolare di Vicenza	3.0
Bank Total	80.9
36,000 shareholders*	19.1
Total	100

* These shareholders joined in the recent warrant-for-shares exercise

Nuovo's recent "operation warrant" – under which old Ambrosiano shareholders converted warrants issued io 1982 into shares – accounts for 19.1 per cent of the equity, in the bands of 36,000 shareholders. The remaining 80.9 per cent of the bank is held by 10 benks, of which two public banks – Banca Nazionale del Lavoro and San Paolo di Corino – own 13.5 per cent each.

After Euromobiliare places the La Centrale shares, the 47 per cent of La Centrale will become 20 per cent of the oewly listed Nuovo group. Thus, the shareholding structure will change yet again, with the 10 banks' 80.9 per ceot stake dropping to 60 per cent.

The Euromobiliare placing is necessary for two reasons: Nuovo Ambrosiano cannot (after the merger) hold shares in itself, and an attempt to place the La Centrale stake with West German and Austrian savings banks recently failed.

Bundesbank may allow CD issues

BY OUR FRANKFURT STAFF

THE BUNDESBANK, West Germany's central bank, is considering allowing banks to issue D-Mark certificates of deposit, but any cbange in policy is unlikely to come into effect for some months and possibly not until next year.

Bundesbank officials have been rethinking their attitude to certificates of deposit – which are widely used in the U.S. and elsewbere – as part of their desire to strengthen West Germany's competitiveness as a financial centre.

Certificates of deposit are, in effect, receipts issued in return for short-term deposits with banks. As they can be traded, they have attracted increasing attention as a useful form of sbort-term money market paper.

One of the questions in West Germany is whether they should be subject to minimum reserve requirements, unlike more traditional forms of bank deposits.

Banks must at present set aside a percentage of various types of deposits in minimum reserves.

The Bundesbank has taken the view that its control of monetary policy would be weakened if it allowed banks to issue certificates of deposit without requiring them to set aside any corresponding minimum reserves.

The central bank has also been concerned in the past that such financial instruments would increase the role of the D-Mark as an international reserve currency, exposing it more to possible fluctuations. For some time, however, the Bundesbank has been taking a more relaxed attitude to this type of argument.

It is believed that the wbole question is to be examined at subcommittee level within the Bundesbank before possibly coming to the policy-making central council.

Even if the Bundesbank decided in favour of permitting the issuance of certificates of deposit and subjecting them to minimum reserve requirements, such a move would require legislative action by the federal parliament in Bonn.

Ford set to make new engines in UK

BY JOHN GRIFFITHS IN LONDON

FORD is expected to announce today that its Dagenham plant in the UK will build an entirely new family of lean-burn engines, destined to go into production in 1987.

Mr Daniel Goeudevert, chief executive of Ford of Germany, disclosed two weeks ago that the project – in which Ford is investing more than £100m ($129m) – would not be going to Cologne.

The engines, of 2 litres and with twin overhead camshafts, are expected to take Ford well down the road towards meeting the tough new emission standards for cars announced by environment ministers in Luxembourg at the end of last week.

Ford's decision resolves what is believed to have been considerable behind-the-scenes rivalry between UK and West German politicians and unions seeking to secure the project because of the considerable number of jobs that may be involved. Output of the engines, the unions believe, could be about 200,000 units a year.

Although the company last night refused either to confirm or deny that an announcement is imminent, the choice of Dagenham gives Ford considerable further grounds for allaying long-voiced union concern that it might be retrenching its operations at the plant.

● Deere, the U.S. equipment manufacturer, has reacbed an agreement on the rationalisation of its engine division under which it will band over distribution to Detroit Diesel Allison (DDA), a subsidiary of General Motors.

The deal was arrived at during separate discussions on the possibility of forming a joint venture for the manufacture and sale of diesel engines. The two companies, among the largest heavy diesel engine producers in the U.S., said that this study is still continuing.

EEC leads rush for Eurobonds

BY MAGGIE URRY IN LONDON

MORE new issues flooded into the Eurodollar bond market yesterday, with the European Community topping the list with a $350m five-year deal. The mandate was won by Bankers Trust International and it is thought that the proceeds are to be swapped into floating rate funds.

Bankers Trust priced the issue to give the EEC an all-in cost of around 35 basis points over U.S. Treasury securities. The coupon was set at 9¾ per cent and issue price at 99¾ with total fees of 1⅞ per cent. The bonds traded just within the total commissions and traders said the terms looked fair.

Earlier in the day Swiss Bank Corporation launched a $100m deal which was well received, trading comfortably inside the 1¼ per cent selling concession at a price around 99½ compared to the par issue price. The borrower's name is so good that it was able to price the deal to yield a few basis points less than U.S. Treasuries.

The bonds, raised in the name of a Cayman Islands subsidiary, have a 10-year life and 10 per cent coupon. They are non-callable. Fees total 2 per cent and Swiss Bank Corporation International is sole lead manager.

Also well received was a $100m deal for State Bank of South Australia, led by Deutsche Bank. The issue has a seven-year life and pays a 10¼ per cent coupon with a par issue price. Fees total 1⅞ per cent and the bonds were trading around 99.

Kyowa Bank launched a $100m seven-year issue with Salomon Brothers as book-runner. The terms were set to give a cost to Kyowa around 45 basis points above seven-year U.S. Treasuries, with a coupon of 10½ per cent and issue price of 100½. The proceeds will be swapped. The bonds were trading around the gross fees of 1⅞ per cent.

Fixed rate Eurodollar bonds were sligbtly weaker yesterday, although trading was quiet ahead of the U.S. Independence Day holiday tomorrow.

The floating rate note sector saw two more rate-capped deals, one also with the mismatch feature. Lehman Brothers, which started the rush of FRNs with a maximum coupon, led a $100m issue for Bank of Yokohama through its Yokobama (Asia) company. The 12-year bonds are non-callable and pay interest at ⅛ per cent above the bid rate for three-month Eurodollar deposits in the London interbank market (Libid). The maximum coupon is 12¾ per cent and front end fees total 76 basis points.

Yokobama is selling the "cap" on and thus achieving funding at below London interbank offered rata (Libor). However, investors bave had many such issues from which to choose recently and the issue was moving slowly, quoted at a level just outside the gross fees.

The other floater launched yesterday was for Bergen Bank, led by Merrill Lynch. This totals $75m and also has a 12-year life, with call protectioo for 10 years. It pays interest at ¼ per cent over six month Libid, with the rate refixed every month allowing investors to fund their boldings from one month money, which is usually cheaper. The maximum coupon is 12⅞ per cent and fees total 87½. The lead manager was quoting the bonds at around 99.30, inside the fees.

The convertible sector was enlivened by an issue for Sumitomo Bank – the second of the Japanese city banks to launch a convertible. This, like Mitsubishi Bank's, met strong demand and traded around 106 compared to a par issue price.

The $120m issue has a 15-year life and the coupon is indicated at 2⅞ per cent – Mitsubishi indicated 3 per cent – with a conversion premium likely to be about 5 per cent. Fees total 2½ per cent. Book runner on the deal is Sumitomo Finance International.

Later this week Banca del Gottardo will launch a SwFr 100m five-year convertible for Sumitomo Bank on the Swiss foreign bond market.

The World Bank launched issues in both the D-Mark Eurobond market and on the French domestic bond market. The DM 600m issue was led by Deutsche Bank and has a 10-year life with a 7 per cent coupon and 99½ issue price. It was well received and traded around 98⅞, well inside the 1⅞ per cent selling concession.

The FFr 1bn deal was led by Banque Paribas and is the World Bank's first on the French domestic market. This has a 12-year life and a coupon of 10.90 per cent with the issue price set at 99.67. It is non-callable, and the yield to maturity is 10.95 per cent.

The World Bank is also due to sign a Y50bn 12-year Samurai bond issue, managed by Yamaichi Securities, today.

D-Marks bonds were unchanged or slightly better yesterday, tbougb turnover was low. Swiss franc foreign bonds were also quiet yesterday, with the market beld back by the lack of a fall in short-term interest rates. Olivetti's SwFr 100m 10-year issue, with a 5½ per cent coupon, started trading yesterday, closing at around 99¾ compared to the 100½ issue price.

Crédit Suisse announced a SwFr 100m private placement for Canada Development Corporation with a five-year life and a 6¼ per cent coupon. Issue price was set at 100.

UBS set the final terms for Nippon Telegraph and Telephone's SwFr 150m 10-year deal at a 5⅝ per cent coupon and 99¾ issue price compared to the indicated yield of 5⅝ per cent.

United Technologies, the U.S. diversified eogineering group, is raising Fl 100m on the Euroguilder bond market with a five-year issue led by ABN. The coupon was set at 7 per cent and issue price at 100.

International bond service, Page 16

Asea set for U.S. acquisition

By David Brown in Stockholm

ASEA, the Swedisb electrical and electronics group, has signed a letter of intent to acquire Parametrics, a subsidiary of Barry Wrigbt of the U.S., with annual sales of $20m. The price bas not been disclosed.

Parametrics is a leading manufacturer of electronic speed controls for low and medium power electric motors. The main applications for these products are in the process control, factory automation and energy conservation fields, which Asea bas targeted as business priorities.

"Parametrics will substantially increase our activities within this market," says Mr Sune Carlsson, Asea's executive vice-president. "We will also obtain a broader technical and commercial base for industrial process development and automation." He added that Parametrics' marketing organisation would play an important role in Asea's future expansion in this field.

The company bas three manufacturing facilities in Connecticut and 300 employees.

BHF Bank confident for full year

By Our Financial Staff

BERLINER Handels-und-Frankfurter Bank, West Germany's biggest merchant bank, said yesterday that satisfactory results were expected for the current year.

The bank, which in January announced plans for a DM 76.2m ($25.1m) rigbts issue, said parent bank partial operating profits for the first five months of 1985, excluding trading, were fully maintained.

Parent bank partial operating profit was DM 51m for the five months compared with a similar figure representing 5/12 of the full 1984 result.

Interest surplus was DM 95m and commission surplus DM 47m, against DM 91m and DM 45m respectively. Personnel costs rose to DM 61m from DM 57m and other operating costs moved up to DM 30m from DM 26m.

The bank said trading results were strong in securities and currency business and full operating profit was markedly higher compared to 5/12 of 1984.

The end-May balance sheet stood DM 12.5bn against DM 11.5bn at the close of 1984.

Further asset disposals by Champion

BY OUR FINANCIAL STAFF

CHAMPION International, the U.S. forest products and building materials group which is now the world's largest paper producer, yesterday announced a further series of asset disposals as part of a continuing divestiture programme intended to reduce the $1.2bn debt incurred when the company bought St Regis late last year.

On the paper products side, Champion announced the sale of its Hennepin Paper Company subsidiary of Carlyle Investments, of Connecticut, and the proposed sale of its kraft paper mill at Tacoma, Washington state, to Simpson Paper of San Francisco. In neither case was a price divulged.

Champion also announced plans to sell some of its construction materials interests, forming part of its Wheeler division, to a new company formed by a group of private investors and including some members of the present management. In this case, too, the company gave no details of the value of the deal.

In mid-May, St Regis International, the UK arm of St Regis, was bought out by its management for some £30m ($39m) in one of the largest transactions of its kind ever carried out in Britain.

Champion acquired St Regis as a "white knight" in the late summer of last year in response to a hostile bid for the company by Mr Rupert Murdocb's News Corporation. Champion agreed to pay $1.8bn, and saw its newly consolidated earnings rise by 50 per cent in the first quarter of this year, thanks to St. Regis' contribution.

INTERNATIONAL COMPANIES and FINANCE

CANADIAN SECURITIES FIRMS TAKE PART IN RISKY TRANSACTION IN FINANCIAL MARKETS

How 'bought deals' sharpen competition

BY BERNARD SIMON IN TORONTO

TWO TORONTO securities firms earned about C$5m (U.S.$3.68m) in less than 24 hours last week by taking part in a risky type of transaction that has become increasingly popular in Canadian financial markets.

Dominion Securities Pitfield (DSP), the largest Canadian investment dealer, and Gordon Capital Securities, widely regarded as among the most aggressive, managed to distribute to institutional investors, retail clients and other brokerage firms a total of 11.4m ordinary shares of Canadian Pacific, the major transport, communications and industrial group. The two firms bought the shares from Power Corporation, the Montreal-based investment holding company, and from its 40 per cent owned affiliate Consolidated-Bathurst. Power was CP's second largest single shareholder until the sale.

DSP and Gordon Capital are widely acknowledged to have scored a coup. They bought the CP shares, worth a total of C$218.8m at C$19.25 each, and were able to sell most of them al up to a dollar per share higher. "That's what we're paid for – to use our professional marketing judgment," says Mr James Pitblado, DPS's chairman.

The deal with Power was one of the biggest of the proliferating number of so-called "boughl deals" that have sharpened competition in the Canadian securities industry, cut across traditinnal loyalties between issuers and underwriters and significantly increased the risks facing securities firms.

The mark of the bought deal is the outright purchase of an entire debt or equity issue by a small group of investment dealers, and sometimes by a single firm. Participants seldnm have an opportunity to follow the traditional course of "pre-marketing" an issue to test the investment climate thoroughly. Short-form prospectuses have cut out much of the paperwork and time involved in preparing a new issue, while strong competition among underwriters forces decisions to be taken quickly.

Mr Pitblado says that "hopefully, we'll be right more often than we'll be wrong." *Not surprisingly*, dealers are reluctant to discuss the issues where they have had to struggle to dispose of their holdings. A C$100m issue nf convertible debentures boughl recently by Wood Gundy from Canada Trust is said to be selling slowly. As the head of one syndicatioo department puts it: "When you sell something at a major loss, you don't announce that."

The growing popularity of bought *deals is an indication, however*, that there have been many more successes than failures so far.

Wood Gundy claims to have pioeered the concept in Canada three years ago in an issue for Macmillan Bloedel, the West Coast forest products company. Mr Gordon Homer, Wood Gundy's new issues director, estimates that between a third and a half of private sector debt and equity offerings last year were bought deals.

Those completed so far in 1985 include a C$75m debenture issue by Westcoast Transmission, the Vancouver pipeline operator, and a C$32m issue of preferred shares by Torstar, a Toronto newspaper and book publishing group.

On the beels of the Power deal, Macmillan Bloedel announced late last week thal il had sold C$50m of preferred shares to Dominion Securities, Richardson Greenshields and Pemberton Houston Willoughby. Trizec, the Calgary property developer, has completed two bought deals this year, the latest being a C$60m issue nf preferred shares to DSP and Merrill Lynch Canada.

Boughl deals obviously favour the larger securities firms with the resources to buy and, if necessary, hold nn to large blocks of debt or equity instruments. Six Toronto firms – DSP, Wood Gundy, McLeod Young Weir, Nesbitt Thomson, Burns Fry and Gordon Capital – are estimated to account for about 90 per cent of the business.

Smaller companies have managed to take some crumbs from the table, however. Bell Gouinlock, one of the medium-sized Toronto investment dealers, recently bought C$1m of preferred shares from a small trust company.

In addition, the large firms have at times either been compelled or *willing* to *distribute some of* their holdings to others. In the Power Corp deal, for instance, DSP and Gordnn Capital agreed with the Toronto and Montreal stock exchanges to distribute at least 10 per cent of the Canadian Pacific shares through nther members of the two exchanges.

The fierce competition to participate in boughl deals may in fact bave burt the large firms more than the smaller ones. Commission rates have plummeted.

Traditional loyalties bave wilted as issuers are sometimes given only a few hours to reply to attractive proposals from aggressive securities firms trying to pick up some new business. Mr Homer of Wood Gundy complains thal "issuers seem to be interested only in performance on the day. Other services don't seem to count for much."

The Power Corp transaction was an example. Power has a long association with Nesbitt Thomson, which just a month ago lead-managed a C$110m common share issue for its financial services subsidiary, Power Financial. But when Gordon Capital made an offer to buy Power's CP shares, it was not refused. Gordoo Capital then asked Dominion Securities to join it.

Freight reductions hit CSX in first half

BY TERRY DODSWORTH IN NEW YORK

CSX, the U.S. rail company, blamed the "lacklustre" economy and lower coal traffic for a 11 per cenl decline in second-quarter earnings from $146m, or 98 cents a share, to $130m, or 87 cents a share.

Sales also fell in the quarter from $1.44bn to $1.36bo, while in the first half of the year they were down from $2.79bn to $2.65bn. In the six-month period, earnings *fell* by 16 per cent from $281m, or $1.77 a share, to $222m, or $1.48.

Coal transport sbowed a 10 per cent decline in the first six months, the *company said, mainly because* in the corresponding period a year earlier, electricity generating companies were building large stockpiles in anticipation of a coal miners' strike.

Freight traffic originated by the manufacturing sector also fell by 4 per cent in the six-mooth period, reflecting general economic conditions, while the gas pipeline business suffered a 19 per cent drop in volume because of warmer weather.

CSX says it bas embarked on a cost-reduction programme this year which cut operating expenses in the first balf by $203m, or 6 per cent, from the previous year's level.

Over the rest of this year, it expects *earnings to continne below* the 1983 level to the end of the third quarter, but then to improve sharply in the final three months.

FT INTERNATIONAL BOND SERVICE

The list shows the 200 latest international bond issues for which an adequate secondary market exists. The following are closing prices for July 2.

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
Amex Credit 10⅞ 90	100	101¾	102¼	−0⅛	+0¾	10.32
Amex Credit 12⅜ 88	150	106⅞	107⅜	0	+1⅛	9.93
Bank of Tokyo 13⅜ 91	100	113⅝	114⅛	+0⅛	+1⅝	10.40
BP Capital 11⅛ 92	150	102⅛	102⅝	−0⅛	+1⅛	10.59
Caisse Nat Tele 13¾ 91	100	113¾	114¼	0	+1¼	10.47
Canada 11½ 90	500	105⅝	106⅛	−0⅛	+0⅞	9.89
Canadian Pac 10¾ 93	100	101⅞	102⅜	−0⅛	−0⅛	10.34
Canadian Pac 12½ 99	75	108½	109	−0⅛	+1⅜	11.22
CBS Inc 11⅜ 92	100	102⅛	102⅝	−0¼	+1	10.86
Chevron U.S.A. 12¼ 89	600	106	106½	−0⅛	+1⅛	10.62
Citicorp 11½ 95	150	101⅜	101⅞	+0⅛	+1½	11.22
Coca Cola 11¾ 91	100	106½	107	−0¼	+0⅜	10.22
Denmark Kingdom 11¼ 89	100	103⅛	103⅝	−0⅜	+1⅞	10.05
Denmark Kingdom 11½ 90	100	104⅝	105⅛	+0⅝	+2¾	10.10
Denmark Kingdom 11½ 92	100	103⅛	104⅛	0	+1⅞	10.64
Denmark Kingdom 13¼ 91	100	111⅝	112⅛	−0⅛	+1½	10.53
Denmark Kingdom 14 91	100	110⅝	111⅜	0	+2⅛	11.36
E.E.C 11⅛ 90	100	103⅛	103⅝	−0⅜	+1	10.13
E.I.B. 12 95	200	107⅜	108⅛	−0¼	+1⅝	10.65
E.I.B. 13 96	200	111¼	111¾	0	+2½	11.73
Export Dev Corp 12 89	100	106½	107	−0½	+1⅜	9.97
Ford Motor Cred 11⅞ 90	100	102⅝	103⅛	−0⅛	+0⅞	10.52
Ford Motor Cred 11⅝ 95	100	105⅜	102⅞	−0⅜	+1⅛	11.15
Ford Motor Cred 11¾ 92	100	102⅞	103⅜	−0¼	+0¾	11.06
Ford Motor Cred 12 95	100	105¾	106¼	−0¼	+0⅞	10.94
Gen Elec Credit 10¼ 00	200	100½	101	−0¼	+1⅛	10.14
GMAC 10¼ 89	200	100¾	101¼	0	+1¼	9.92
IBM Credit 10⅞ 2000	300	101⅜	101⅞	+0⅛	+1⅝	10.14
Indust Bk Japan 12⅞ 89	100	109⅛	109⅝	−0⅛	+1⅜	10.93
Japan Air Lines 13⅞ 94	180	119⅛	119⅝	0	+2⅛	10.82
Kellogg Company 10⅞ 90	100	102¼	102¾	−0⅛	+1⅜	10.12
Kellogg Company 11¼ 92	100	104⅜	104⅞	+0⅜	+2⅛	10.22
L.T.C.B. 12⅞ 91	100	109⅝	110⅛	0	+1⅛	10.62
Macy Cred Corp 11¾ 95	100	104¾	105¼	+0⅜	+1¼	10.86
Mellon Bank 13 87	100	106	106½	+0⅛	+0½	9.62
Merrill Lynch 12¾ 89	100	105½	106	−0⅛	+0¾	10.95
Minnesota 11⅛ 87	100	103⅛	103⅝	−0⅛	+0⅜	9.60
Mitsui Trust 11⅝ 00	100	103⅜	102⅞	+0⅛	+0⅞	10.65
Morgan Guaranty 12⅝ 89	150	106½	107	−0⅛	+1	10.31
Nippon Cred Bk 13⅞ 89	100	110¾	111¼	−0⅜	+0⅞	10.39
Nth America 12⅞ 91	100	†100¼	105¾	−0⅜	+0¾	11.58
Penney J.C. 12¾ 91	100	108¼	108¾	0	+0⅜	10.78
Pru Realty secs 12⅞ 95	546	106½	107	−0⅛	+0½	10.01
Quebec Hydro 11½ 92	100	104¾	105¼	−0¼	+0¼	10.47
Ralston Purina 11¾ 99	150	105¼	105¾	0	+1⅛	10.80
Ralston Purina 12¾ 89	100	107⅝	108⅛	−0¼	+0¼	10.34
Royal Bk Can 12¾ 92 XW	100	102⅛	102⅞	0	+0½	12.14
Saskatchewan 10 3/4 92	100	101½	102	0	+1⅜	10.35
Saskatchewan 11 7/8 89	100	106⅜	106⅞	−0⅛	+1½	9.90
Statoil 13½ 89	100	111¼	111¾	−0⅛	+1⅜	9.91
S Wales Trsy 11¾ 90	150	105¼	105¾	−0¼	+1¾	10.23
Swed Exp Cred 10 92	100	97½	98	−0¼	+1¼	10.47
Swed Exp Cred 12¾ 89XW	100	107⅝	108⅛	−0¼	+1¼	10.21
Sweden Kingdom 10⅞ 90	200	103½	104	0	+2	10.12
Sweden Kingdom 11½ 89	200	104¾	105¼	−0¼	+1⅜	10.01
Sweden Kingdom 11¾ 94	100	106¾	107¼	+0¼	+1⅞	10.52
Texaco Capital 12⅞ 87	300	105⅞	106⅜	0	+1	9.58
Tokai Asia 11½ 90	100	103⅞	104⅜	0	+1⅞	10.79
Victorian Rep 11⅝ 92	150	104¾	105¼	−0⅛	+1¼	10.54
World Bank 12¾ 94	150	110¼	110¾	+0⅛	+2⅛	10.42
World Bank 12⅞ 94	200	113⅛	113⅝	−0⅛	+2¼	10.52

Average price change On day −0⅛ on week +1¼

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
Asian Dev Bank 8 94	200	103¾	104½	−0⅛	+0⅜	7.38
Austria Republic 7⅝ 94	200	103⅜	104⅛	0	+0⅝	7.03
Baxter Travenol 7¼ 94	200	101¼	102	+0⅛	−0⅛	6.98
Credit National 8⅛ 94	200	104⅝	106⅛	0	0	7.25
Degussa Int Fin 7½ 94	100	102¾	103½	0	−1⅛	6.99
E.E.C. 8 92	200	103⅞	104⅝	0	+0⅛	7.15
E.I.B. 7¼ 94	300	100¼	101	+0⅛	+0½	7.15
Escom 8 92	150	99⅛	99⅞	+0⅛	−0⅞	8.09
Ferrovie Dello Stato 8 91	100	102⅞	103⅝	0	−0½	7.28
Finland Republic 7 92	200	99⅛	99⅞	+0¼	+0⅛	7.09
Gould Int Fin 7⅝ 91	100	102⅞	103⅝	0	−0⅛	6.93
Ireland 8⅛ 92	150	103⅛	103⅞	+0¼	+0⅝	7.45
Japan Fin Corp 7⅝ 91	100	102⅞	103⅜	+0⅛	−0⅛	6.97
Mitsubishi Hvy 3½ 89WW	300	121	122	−0¼	−1⅛	−1.97
Mitsubishi Hvy 3½ 89XW	300	90⅜	91⅛	0	+0⅜	6.34
Mitsubishi Met 3⅛ 89WW	100	100½	101½	+0½	−0¼	2.86
Mitsubishi Met 3⅛ 89XW	100	86⅜	87⅛	−0⅜	−0¼	6.84
Pepsico O/S Fin 7¼ 94	250	103⅝	104⅜	−0¼	+0⅜	6.82
Renfe 7¾ 95	100	100⅜	101⅛	+0¼	+0¼	7.63
Renown 3⅛ 90	80	103⅞	104⅞	0	−0½	2.19
Reynolds O/S Fin 7⅞ 94	125	102¾	103½	+0¼	−0⅛	6.90
Societe Cent Nuclear 8 91	100	104⅜	105⅛	0	+0⅜	7.00
Sth African Tran 7⅝ 92	100	96¼	97	−0⅛	0	8.24
World Bank 7¼ 89	100	102	102¾	0	0	6.97
World Bank 8 94	200	105⅝	106⅜	+0⅛	+0⅝	7.04

Average price change On day 0 on week 0

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
African Dev Bk 6¾ 94	100	†*101¾	102	0	+0½	5.98
Avon Cap Corp 5⅝ 94	130	†*99	99¼	+0¼	−0¾	5.49
Brit land Comp 6½ 99	75	†*102¾	103	−0⅜	+0¼	6.19
Council of Europe 6 92	120	†*101½	101¾	0	+0½	5.72
Creditanstalt 5½ 94	100	†*97	97¼	−0⅛	−0¾	5.90
Deutsche Bk Fin 5⅜ 95	100	†*101	101¼	0	+0¼	5.22
E.I.B. 5⅝ 94	120	†*100¾	101	−0⅜	−0½	5.75
Export Dev Corp 5⅜ 92	125	†*100¼	100½	+0½	0	5.31
Gen Occidentale 4½ 94	88	†*102½	103	−0⅛	+0⅜	4.14
I C Industries 5⅝ 94	125	†*99¼	99½	−1	−0¼	5.71
Ind Fund Fin 5¾ 94	40	†*100¼	100½	+0½	0	5.69
Int-Am Dev Bk 6⅛ 94	120	†*100¾	101	−0¼	−0¾	5.98
N.Zealand Steel 5¾ 96	70	†*98¾	99	0	−0½	5.88
Oberos Kltwk 5⅜ 95	100	†*98¾	99	+0½	+0¼	5.52
Ralston Purina 5⅜ 94	125	†*100	100¼	+0¼	+0½	5.35
Santos Finance Ltd 6 94	130	†*98½	98¾	+0¼	0	6.19
Tokyo Elec Pwr 5½ 93	120	†*99½	99¾	−0½	−0½	5.56
Tokyo Metropolis 5¼ 94	80	†*98½	99	−0⅛	−0⅛	5.42
World Bk 5¾ 94	150	†*100½	100¾	+0¼	0	5.66

Average price change On day 0 on week −0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
Austria Republic 7 95	30	100	100½	0	+0⅝	6.86
BP Overzee 7 92	17	100½	101	+0⅛	+0¼	6.86
Finland Republic 6¾ 90	15	99½	100	+0⅛	+0¼	6.80
Mort Bk Denmark 7 93	10	99¾	100¼	0	0	7.00
World Bank 8⅝ 00	25	98½	100	+0⅛	+0¼	8.66

Average price change On day +0⅛ on week +0⅜

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
Australia 13¼ 90 $A	40	102⅝	103⅜	−0⅛	−0⅜	12.38
Avco Fin 14 90 $A	35	101⅞	102⅞	+0⅜	+1¼	13.31
BT Aust. 13⅝ 92 $A	40	103⅛	104⅛	0	−0⅜	13.01
Westpac 13½ 90 $A	50	103¼	104¼	+0⅛	+1⅝	11.90
British Columbia 12 90 C$	125	†104	104½	+0⅜	+1⅜	10.79
Can Nat Rail 12½ 95 C$	100	†105¾	106¼	+0¼	+0⅞	11.43
Chrysler Cred 12⅝ 93C$	60	†103⅝	104⅛	+0⅜	+1⅛	11.78
Desjardins 12½ 90 C$	50	†103⅛	103⅝	+0⅞	+0⅞	11.54
Genstar Fin 11¾ 95 C$	75	97¼	97¾	−0⅛	−0⅛	12.19
New Brunswick 11⅝ 95C$	75	†101¼	101¾	+0⅞	+1½	11.36
Shell Canada 11¼ 92 C$	75	101¼	101¾	+0¼	+0⅛	10.93
Nordic Inv Bk 10 00 NS	50	99¾	100¾	0	−0¼	15.87
NZ Forest 15¾ 92 NS	30	96¼	97¼	+0¼	0	16.46
Woolworth 16¼ 91 NS	25	100½	101½	−0¾	−1¼	15.91
N Z Govt 8¼ 90 ECU	100	100	100¾	+0¼	+0⅛	8.15
N Z Govt 8½ 92 ECU	100	100¼	101	+0¼	+0¼	8.37
Rabobank 8⅝ 95 ECU	75	100½	101¼	+0¼	+0⅜	8.07
Eurofima 7½ 92 FL	50	101⅛	101⅞	+0⅛	+0⅜	7.16
Philips Lamps 7½ 00 FL	100	101⅝	102⅛	+0⅛	+0⅛	7.02
Rank Xerox 8 90 FL	100	103½	104	+0⅛	+0¾	7.05
Van Lanschot 7½ 90FL	50	100⅝	101⅞	+0⅛	+0⅜	7.10
World Bank 7½ 00 FL	150	101¾	102¼	+0⅛	+1	6.96
Gaz de France 11¼ 00FF	500	99¾	100½	+0⅛	+0¼	11.22
American Brands 12 95 £	40	106	106½	0	+0⅜	11.22
Amer Express 11⅜ 92 £	30	103⅝	104⅛	−0⅛	+0⅜	10.55
Australia Comm 11 92 £	40	98½	99	+0⅛	0	11.25
BP Capital 10¾ 92 £	50	98¼	98¾	0	+0½	11.04
E.I.B. 11⅛ 93 £	50	100⅝	101⅛	+0⅛	+0⅜	10.93
Inco 12½ 93 £	50	103	103¾	−0¼	+0¼	12.01
Mcdonalds 10⅞ 90 £	40	98	98½	−0⅛	+0⅛	11.06
Norsk Hydro 11⅝ 91 £	50	101⅝	102⅛	−0⅛	−0⅛	11.13
Privatbanken 11⅞ 92 £	20	100¼	100¾	−0¼	+0⅛	11.76
Rank Xerox 11 92 £	40	98¾	99¼	−0⅛	0	11.20
Royal Trustco 11⅝ 90 £	30	100	100½	+0⅛	+0¼	11.27
Ster Drug Cap 10⅝ 00 £	50	98½	99	0	+0¼	11.36
Swed Exp Cred 11⅝ 92 £	50	100½	101	+0⅛	+0⅜	11.16
Trthouse Forte 11⅛ 90£	50	99	99½	+0⅛	+0⅛	11.09
World Bank 11¼ 95 £	100	101⅜	101⅞	−0⅛	+0¼	10.96
E.C.S.C. 10½ 94LF	100	105⅛	106⅛	+0⅛	+0½	8.64
Nat Lux Alum 10½ 92 LF	600	105⅝	106⅝	+0⅛	+0¼	9.28

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
B.B.L. Int 5 89	0⅛	100⅜	100⅝	11/10	8⅝	8.58
Banco di Roma 5¼ 92	0	99⅜	99⅝	24/8	7.88	8.02
BankAmerica O/S 5¼ 00	0⅛	100	100¼	28/8	8.81	8.80
Bank of Montreal 5 00	0⅛	100½	100¾	28/7	8¾	8.70
Bankers Trust 5 2000	0	99½	99¾	11/8	8.81	8.85
Bankers Trust 5¼ 96	0⅛	100⅛	100⅜	13/8	8.56	8.54
B.F.C.E. 5¼ 99	0⅛	100⅜	100⅝	13/9	10.06	10.01
B.N.P. 5¼ 00 (July)	0¼	100	100⅛	22/7	8⅛	8.11
C.C.F. 5¼ 97	0	99⅝	99⅞	22/8	10⅝	10.66
Chase Man'tn 5¼ 2009	0⅛	99⅞	100⅛	5/8	8.00	8.00
Citicorp O/S 5¼ 96 Sep	0⅛	99¾	100	19/12	11.19	11.28
Credit Lyonnais 0¼ 95	0⅛	100⅜	100⅞	11/10	9.00	9.02
Dresdner Fin 5¼ 89	0	99⅞	100⅛	28/8	8⅝	8.38
Ireland 5¼ 97	0	100¼	100½	28/10	9.90	9.85
Ireland 5¼ 99	0	100½	100¾	14/9	10	9.94
Italy, Republic 5 94	0⅛	100⅛	100⅜	12/11	8⅞	8.85
Lloyds Euro 5 2004	0⅛	100⅛	100⅜	18/10	9⅛	9.10
Midland Bank Perp 5	0¼	98½	98¾	19/8	5	9.02
Nat West Perp 5	0⅜	100⅞	101⅛	13/11	8⅛	8.03
Nat West Perp A 5¼ S	0¼	98¼	98½	9/7	8¼	5.38
Nat West Perp B 5¼ B	0¼	98⅛	98⅜	9/8	8¼	8.29
Queensland Coal 5¼ 98	0¼	100½	100¾	12/11	0	8.94
Roy Bk Scot 5¼ 2005 £	0	98⅛	98⅜	2/8	12.81	12.91
Sweden Perp 5¼	0¼	100⅛	100⅜	9/7	9.44	9.41
Tokai 5¼ 99	0⅛	100⅝	100⅞	12/8	8.94	8.89

Average price change On day 0 on week +0⅛

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Ajinomoto 3 99	4/84	1053.64	98⅞	99⅞	+1⅜	2.84
Fanuc 3¾ 98	1/84	7032.3	148⅞	150⅛	+0½	36.18
Fujitsu 3 99	5/84	1320.9	84	85	+0⅜	20.50
Kumagai Gumi 3½ 2000	3/85	600	117⅞	118⅞	+1⅜	8.17
Maru 3½ 99	7/84	1192	100	101	+0⅝	1.80
Mitsubishi Elec 2⅞ 00	3/85	422	96¼	98¼	+1⅝	9.10
Murata 3½ 99	2/84	2351.2	92⅝	93⅝	−0⅜	23.74
Murata 3½ 2000	7/84	2398	91⅝	92⅝	−0¼	25.25
Nippon Elec 2⅞ 2000	1/85	1295	85⅝	86⅝	−0⅜	9.08
Nippon Oil Co 3 2000	5/85	923	102⅜	103⅜	+0¼	8.62
Nippon Oil Co 3¼ 99	3/84	1052	92⅞	93⅞	+0½	13.09
Oki Elec Ind 3½ 99	10/84	805	86½	87½	−0⅜	23.96
Orient Leasing 5¼ 98	6/83	2680	112	113	0	−3.35
Sekisui House 3 99	6/84	612	111¾	112¾	−0½	2.50
Sony Corp 2 2000	5/85	4578	89	90	−0⅝	−0.79
Sumitomo Corp 2⅞ 99	6/84	593	119	120	−1	1.46
Taiyo Yuden 3¼ 2000	3/85	1078	87⅞	88⅞	+0⅜	−2.91
Takeda Riken 3¾ 2000	10/84	7983	82	83	+0½	25.44
Tokyo Sanyo Elec 3½ 99	12/84	772	91¾	92¾	+0⅜	−1.37
Toshiba Ceramics 3 2000	4/85	1734.2	81⅞	82⅞	0	2.94
Nippon Oil Co 2⅞ 92 SF	3/84	1052	†*105½	106	−1	9.81
Nippon Shinpan Co 2 92 SF	3/84	801	†*104½	105	−0½	11.76
Asics 5 92 DM	12/83	530	109⅜	108⅜	0	22.08
Sun Realty 8¼ 92 DM	2/83	338	274¾	276¼	−4⅛	−4.74

* No information available–previous day's price.

† Only one market maker supplied a price.

Straight Bonds: The yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C. dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡ three month; § above mean rate) for U.S. dollars. C.cpn. = current coupon. Cy. yld = current yield.

Convertible bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv. date = First date for conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Thais sift ruins of Mae's pyramid

Depositors in Mae Chamoy's "chit fund" scheme face losing everything reports Chris Sherwell in Bangkok

IN AN air force enclave on the outskirts of Bangkok, under the roof of a cavernous basketball bal, policement sit at a dozen desks methodically dealing with complaints about Tbailand's most publicised financial scandal

Scores of well-to-do air force officers and middle class civilians patiently give details of the savings they willingly handed over to a "chit fund" on promises of fantastic returns.

Many stand to lose everything they own, having mortgage their houses to raise funds to deposit, and the scheme itself bas been linked directly to the finance company crisis which hit Thailand in late 1983 and 1984.

At the beart of the scandal is Mras Cbamoy Thippso, popularly known as Mae Cbamoy.

She is the wife of a former air force officer and once a government clerk, and last year appeared regularly on the front pages of local newspapers and attended royal functions.

She is now being held by the police crime suppression division and as local, reports rather eerily put it, "being given maximum security to prevent any murder attempt." One account says her former clients bave been given the names, addresses and telephone numbers of her relatives, who are also presumed to be at risk.

Details of how the shceme worked remain vague. Depositors, including many air force personnel, received interest payments equivalent to just over 6 per cent a month. Amounts ranging from several thousand to several million baht (as must as $100,000 each) were put in, and these would double in 16 to 17 months, provided the "pyramid" of depositors kept growing.

The scheme had operated for years before it came to public light in the wake of a liquidity crisis which convulsed Thailand's less well-backed finance companies. It emerged that ever larger numbers of the public were sbifting money into funds like Mae Chamoy's—at one point the size of her fund alone was put at up to 8bn baht which, if true, made it a financial force to be reckoned with.

Bankers complained, and the Government itself called the funds a threat to public order. Recognising the dangers of such pyramid schemes, it made the courageous but necessary decision to ban the funds by royal decree.

Protests followed, notably from certain quarters of the powerful military, and it was at this time that Mae Chamoy herself was seen more and more publicly. As a result everyone presumed she was safe and well-protected, a feeling reinforced by assertions from General Arthit Kamlang-Ek, the military's supreme commander, that the scheme could continue.

To prevent any panic run she offered verbal assurances to her clients saying her fund would last 20 years. But the Government—in particular Mr Sommai Hoontrakul, the Finance Minister—was adamant. The ban took bold, and Mae Chamoy found it increasingly difficult to make her payouts.

In March she vanished for the best part of three months only to resurface and be held "for her own protection" by the air force while still trying to reassure nervous depositors. Last week she was finally handed over to the police.

It has also emerged that 4bn baht held by Mae Chamoy in regular bank accounts up to January this year has disappeared. Depositors who had already given up on interest payments but hoped to retrieve their principal thus face the loss of everything, while the suspicion persists that certain important clients, including institutions, have managed to get their deposits back.

Although the losses may seem like an inevitable consequence of unrestrained greed, the social implication of the fund's collapse could be severe. Bangkok's middle class, and the Tbai air force officer corps, bave suffered embarrassment as well as hefty financial penalties, a potentially combustible combination.

As for Mae Chamoy, she appears to have been thrown to the wolves. She will almost certainly be tried for fraud and breaking the ban on chit funds. She will probably be sentenced to several years in jail. Though her greatest defence is her knowledge of the true masterminds behind her ultimately impossible scheme, right now she looks as helpless as her former clients now complaining to the police.

Dunlop India profit fails to cover dividend

DUNLOP INDIA, now under the effective control of Mr R P Goenka, a local industrialist, bas reported a further profits setback for last year from an already bad 1983 performance, writes P. C. Mahanti

On sales down from Rs 3.2bn ($258.2m) to Rs 3bn, the net earnings of Rs 17.1m were insufficient to cover the dividend. This was despite a halving of the pay-out to 10 per cent. Management will draw on reserves to pay the remainder.

The company received a hostile reception from shareholders at its annual meeting. This was beld under the cbairmanship of Mr R. Chhabria, tbe non-resident Indian who joined with Mr Goenka in the take-over earlier this year.

He announced plans for modernising the company's operations and introducing Japanese technology for tyre making which would substantially reduce costs and improve the competitiveness of Dunlop India's products in a growingly difficult domestic market.

Licensed domestic capacity of 15m tyres annually exceeds actual demand by at least 5m units. According to Mr Chhabria, this excess capacity will prevail at least until the end of the decade.

AT&T in telecom venture with Fujitsu and Hitachi

BY YOKO SHIBATA IN TOKYO

FUJITSU and Hitachi, Japan's two major computer makers, are to participate in a valne added network (VAN) telecommunications joint venture with American Telephone and Telegraph (AT&T).

The two Japanese companies will be linked in Japan ENS, a joint venture company to be formed by AT&T and 16 Japanese partners including the Industrial Bank of Japan (IBJ) and Mitsui & Co., the trading house.

The venture is due shortly to seek government permission for a service of as yet unspecified extents which it bopes to begin by this autumn at the earlierst. Fujitsu and Hitachi are expected to provide tecbnical assistance for tbe service, called "NET 1,000," and will co-operate in marketing.

By tbe time the network goes into operation, the financial contribution by AT&T is projected to account for half the total Y10bn ($40.4m).

Following the deregulation of the country's telecommunications market from last April, VAN services such as these are expected to form the largest are of commercial opportunity for domestic and foreign companies in the sector. Even though Nippon Telegraph and Telepbone (NTT), the former state monopoly, will remain the main supplier, other operators can potentially account for a third of Japan's VAN market for special services. This is predicted to total Y300bn in the current financial year, and to expand by more than 20 per cent annually to some Y800bn by 7990, according to Fujitu.

The Government has delinated three types of communications networks that can be set up by these competitors:

- Common carriers that own, operate and lease public communication circuits.
- Nationwide VANs where special operators can serve an unspecified number of subscribers after being granted a licence. It is into this category that the latest venture falls.
- Smaller van series for specific geograpbic areas, a group of computer users, o rintra- or inter-company use. Operators of these need only submit notification to the ministry.

A total of 118 companies including IBM Jaan, a wholly owned subsidiary of the U.S. computer group, to register these fast "general type two" telecommunications operations, where requirements for facilities, technology and supervision are much less rigorous than the "special type two" business which AT&T and its partners seek to enter.

The participation of Fujitsu and Hitachi, which account for nearly 50 per cent of the Japanese computer market, will form a formidable alliance. In addition, AT&T is expected to ask Toshiba to join in the marketing of the service.

Bank Bumiputra loans to Carrian totalled $292m

THE MALAYSIAN authorities have specified the extent of the "abnormal" loans extended by the state-owned Bank Bumiputra Malaysia to the now defunct Carrian Group of Hong Kong, Reuter reports from Kuala Lumpur.

Bumiputra Malaysia Finance (BMF), a subsidiary of the bank, made loans to Carrian totalling US$292m between December 1979 and June 1980, according to Tan Sri Ahmad Noordin, the country's auditor general.

"The loans were bighly abnormal because they were given to just one company within a short period of time and made against normal banking practices," be said. Tbe auditor-general beads a three-man committee set up by Bank Bumiputra to investigate more than $1bn in irrecoverable loans made by BMF.

He made the comments after submitting tbe committee's latest confidential brief on the loans to Bank Bumiputra. This is the third part of a report which bas yet to be finalised and made public.

Last January the committee accused six BMF executives of corruption and called on the authorities in Malaysia and in Hong Kong to investigate and charge them in court. The executives bave since resigned.

In September Petronas, the national oil company, bailed out Bank Bumiputra by taking on its debt and injecting $130m.

Trafalgar Housing back in the red

By Our Financial Staff

TRAFALGAR HOUSING, tbe debt-burdened property developer, returned to net losses in the year to March despite more than trebling its turnover.

The attributable deficit of HK$2.88m (U.S.$371,000) compared with profits the previous year of HK$15.20m. The 1983-84 result was struck, however, after extraordinary credits of HK$43.88m. Turnover was HK$197.73m against HK$58.48m.

Trafalgar Housing, which has no connection with Trafalgar House of the UK, has been marketing Macao property as a means for Hong Kong investors to obtain Portuguese residence rights.

Presidential Address

95th Annual General Meeting of the Chamber of Mines of South Africa

Mining: Record earnings in a difficult year

This is an abridged version of the Presidential address given by Mr. G. Y. Nisbet at the 95th Annual General Meeting of the Chamber held in Johannesburg on June 25, 1985.

For the Soutb African mining industry and for Soutb Africa the past year has been characterised by paradox and irony: in the face of difficult market conditions the mining industry has achieved record earnings, while at the political level, the Government's reform initiatives have met with domestic unrest and negative response abroad.

The comparative success achieved by the mining sector, with favourable exchange rates boosting revenues in 1984 by 17 per cent to a record R10 000 million, was the only highlight in an otherwise unsatisfactory year for the South African economy. Altbough the real gross domestic product increased by 4.5 per cent in 1984, almost all the growth occurred in the first quarter of the year and was followed by six negative months accompanied by accelerating inflation and growing unemployment.

The widespread domestic unrest and violence in recent months would seem to stem from a complex mixture of factors, including genuine frustration, disillusionment and sheer economic hardship among blacks, and in these circumstances deliberate efforts to destabilise the black community and to create a revolutionary climate in fertile soil.

I believe that these negative attitudes among the black population could be changed once the Government, which is committed to progressive social, economic and political reform, gets more actively to grips with the fundamental issues in purposeful discussion with black leaders who enjoy the genuine support of their communities.

MINERAL SALES

Gold is by far the most important sector of the South African mining industry, employing nearly 70 per cent of the total workforce and earning over 60 per cent of all mining revenues. For the gold mines 1984 was a mixed year, with the average dollar price of gold falling by nearly 15 per cent from $425 in 1983 to $361 an ounce in 1984, but with output expanding and rand revenues reaching a record R11 560 million, some 13.6 per cent higher than the previous year.

Coal, which in recent years has become the second largest revenue earner after gold, last year recorded an increase of no less than 30.8 per cent in the value of sales which reached R3426 million.

For hoth silver and diamonds 1984 was a poor year for producers with the value of sales of both minerals declining sharply, despite the falling value of the rand. Silver sales for 1984 at R66 million were 6.8 per cent down on the previous year and diamond sales valued at R518 million, some 3.6 per cent below the previous year's figure of R538 million. South African producers of platinum group metals experienced a good year in 1984 despite substantial falls in the dollar price of platinum and palladium. Revenues were boosted not only by the falling value of the rand but also by dramatic increases in the price of the 'lesser' PGMs with osmium, for example, recording an extraordinary five-fold increase in price during 1984.

Sales of metals and minerals other than gold, silver, diamonds and coal in 1984 were valued at R3438 million, some 21 per cent more than the previous year's figure of R2838 million. Of the major items in this sector only asbestos figures sbowed a decline, with sales valued at R101 million, 8.2 per cent lower than the previous year's figure of R110 million. A general improvement in economic activity amongst OECD countries provided a tentative but welcome boost to the demand for base metals in 1984, providing South African suppliers with firmer dollar prices and substantially improved rand earnings. In contrast to a dismal 1983, metals associated with the ferrous industries, especially manganese, chrome and titanium, did particularly well in 1984 with volumes, prices and revenues well up on the previous year.

GOLD PROMOTION AND MARKETING

In yet another difficult year for the world gold market, the third in succession since 1982, the gold mining industry can be well satisfied with substantial increases in gold consumption in both the jewellery and industrial demand sectors, respectively. On the other hand it was a particularly depressing year for the investment sector as is reflected by the 25 per cent decline in Krugerrand sales. This year promises to be even better than 1984 for industrial gold demand, but until the U.S. dollar reverses its upward trend and inflation again becomes a matter of concern in the minds of consumers in Western Europe, the United States and Japan, gold will remain unattractive to the investment community.

EMPLOYMENT AND WAGES

While most sectors of the economy faced severe economic recession in 1984 the level of employment in the South African gold mining industry reached an all-time high and wages for the black workforce continued to increase in real terms.

The South African mining industry as a whole relies on a high proportion (about 90 per cent) of unskilled and semi-skilled black workers who are drawn from throughout Southern Africa.

The importance of this in human terms to South Africa and its neighbouring countries or territories cannot be overstated, but in random statistical terms mining and quarrying in 1984, with a workforce of 717 000:

* Accounted for one in every seven people in active employment in South Africa outside of agriculture;
* Contributed, directly and indirectly, about 18 per cent of South Africa's gross domestic product;
* Provided a lifeline estimated at R1 billion to labour-supplying territories through wages and savings remitted home by mineworkers; and
* Ensured the economic survival of about 3 million dependents of black mineworkers.

ECONOMIC OUTLOOK

Although the domestic economy is likely to remain under severe pressure over the next year, there are indeed signs of improvement. There is now a definite trend towards lower short-term interest rates. Eventually this must place downward pressure on long-term rates as well. There has been a recent predominance of bullish sentiment on the Johannesburg stock market, which suggests a renewed confidence about the outlook for the economy. Perhaps these are straws in the wind, but it would be foolish to disregard them.

CM

The full text of this address is available from:

The General Manager
Chamber of Mines of South Africa
P.O. Box 809
JOHANNESBURG 2000
SOUTH AFRICA

Hoechst develops savoire faire in its French investments

BY JOHN DAVIES, RECENTLY IN PARIS

"THE FRENCH could learn quite a lot from the German chemical industry," says M Henri Monod. "In management, yes," he hastens to add, "not in brilliaot ideas."

A man of beaming bonnomie and grand flourishes, M Monod represents the Hoecbst spirit in France, presiding over the West German cbemical and pharmaceutical group's largest operation outside its home terrain.

In the Hoechst tower block at La Defense, with a sweeping view across Paris, M Monod praises *stability in management* as one of the strengths of the West German chemical iodustry.

Hoechst, for instance, has only now got its third chief executive since its indcpendent post-war era began 33 years ago, wheo it was carved out of the old IG Farbenindustrie combine. The new head, Prof Wolfgang Hilger, took over earlier this month from Prof Rolf Sammet, wbose 16 years at the *helm* followed Prof Karl Winnacker's 17-year stiot.

"But at Rhone-Poulenc," says M Monod, referring to the big state-owned French chemical group, "we have had six chief executives since the war. And all of them wanted to change the policy. That is typically French."

M Moood, however, is highly protective of French interests and sensitivities, and feels a particular *affinity* to Roussel Uclaf, tbe largely pharmaceutical and agro-chemical coocern, where Hoechst bas a delicale partoersbip with the French Government.

A man of beaming bonhomie and grand flourishes, M Monod (right) represents the *Hoechst spirit in* France, presiding over the West German *chemical and* pharmaceutical group's largest operation outside its home terrain.

"We have a lot of brilliant ideas at Roussel Uclaf," he says expansively. The coocern, he asserts, is now reaping the benefit of a lot of investment and research effort.

Caution against changing too much

For this reason, be counsels cautioo against changing things too much, too frequently. wbich he stresses is a persooal view. The compromise agreemeot under which Roussel Uclaf escaped oationalisation is expected to be reviewed by the Freoch Government and Hoecbst next year. But various factors seem to encourage Hoechst executives in their relaxed attitude to these talks.

For a start, they argue that the existing sophisticated arrangemeot has worked well. Hoechst, which was attracted to Roussel Uclaf by its drugs research, kept 54.5 per cent of the voting capital, but the French state was cooceded control of the supervisory board, although both sides have proclaimed a "*hands off*" policy.

The French political tide is turniog against the general idea of nationalisation, while pressure on state financea has led to concern about the ability of some government-owned groups to fund further expansioo.

Io a proposal to split up the 40 per cent stete holding in Roussel Uclaf, the Frencb Government is reported to envisage hiving off a small part of its stake to Compagnie Financiere de Suez.

Such a move would improve the government's financial bookkeeping, as well as settling an outstanding claim by Suez on tbe government. The effect on ownership lo Roussel Uclaf would be minimal at the moment, as Suez is itself nationalised. But if French banks were to be denalioo-alised, this would result in a distioctly new element io the Roussel Uclaf mix.

M Monod says that he personally opposes the increase of Hoechst's stake in Roussel Uclaf, on the grounds that *frequeot chaoga can* be upsettiog in a company. His only concern about the Freoch state's holding is that it should not pass into the hands of a competing chemical company, be says.

Although Hoechst keeps a diplomatic distance, Roussel Uclaf makes up a sizeable part of the group's French operations.

Hocchsl's French activities produced sales revenuc of FFr 16.8bn ($1.82bn) last year—from imports and local production (including locally produced materials exported from France). Roussel Uclaf contributed a hefty FFr 10.8bn of this total.

Societe Francaiae Hoechst (SFH), whicb runs five production centres of its own and is a holding company for the Hoechst stake in Roussel Uclaf, bad sales revenue of FFr 5.2bn. Other opcrations io the Hoechst group *chipped* in a further FFr 800m.

Roussel Uclaf made oet profit of FFr 453m (up from FFr 352m in 1983), while SFH—omitting earniogs from some pharmaceutical operations absorbed last year—made nct profit of FFr 102m (compared with FFr 116m in 1983, boosted by a FFr 33m exceptional item).

In its wide-ranging activilies in France, Hoechst endeavours to present a distinctly Gallic image. M Moood, as presideot of SFH, is flanked on the local board by M Gilbert Gaillard as vice-president and production director and by two German Francophiles *in* tbe form of Herr Friedrich Deichmann, formerly an executive in Morocco, and Herr Erich Theis, a financial expert long resideot in Paris.

With its five chemical and pharmaceuticol plants in France, SFH regards itself as as deeply entrencbed in local tradition aod clearly aims to keep things that way. At its Cuise Lamotte complex near Paris, whose origins go back 90 yeors, a new paraffin aulphonale plant wes opcoed this montb et a ceremony where French verve was well to the fore.

The West German *flag* was flyiog at the factory gate (alongside the French tricolor), but it was a tape in French colours which e French industry official ceremoniously cut and which M Monod distributed flamboyantly to some of the hundreds of French gucsts.

The poraffin sulphonate plant, built at a cost of FFr 85m, is one of only three opereted by Hoechst to Europe to produce substences for *use in* detergents wbich, it is claimed, do not pose a problcm for the eovironment. Hoechst claims to be the world leader in lerge-scale production of such oialerials.

Bebind Hoechst's recognition of French sensitivitles is e careful strategy of building np local research, investment and production with an eye to export markets, as well as the locol French market.

About 40 per cent of SFH's sales revenuc comes from its local production; and in turn, 40 per ceot of the locally produced materiels are cxported, mostly within Europe but also to the U.S., French-speaking Africa, the Middle East and Asia.

SFH has embarked on e plan to invest FFr 950m between 1984 end 1988, much of it on new and modcrnised plent. This is a substantial increase above investment in the prevlous three years, wblch were marked by restructurlog.

Focus kept on local research

With an eye to French support, it has focused on local research, including blotechnology, as one of the group's *main* priorities. Just uoder e tenth of SFH's employees are engaged in research.

In export marketing it is setting its sights increasingly on Japan, which takes only 2 per cent of its exports. If the effort succeeds, it will not only go down well at Hoechst headquarters near Frankfurt, but also among those in France who appreciate *savoire faire*.

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

Wages and jobs

Europe treads an uneasy middle way

Brian Groom reports on governments' attempts to strike a balance between flexibility and orderly labour markets

POOR OLD EUROPE. With unemployment 11 per cent and rising, against 7.3 per cent in the U.S. and 2.5 per cent in Japan, its allegedly ossified markets are increasingly singled out as a prime obstacle to greater competitiveness.

Have things really got that bad? The closer one looks, the harder it is to draw any simple conclusions, certainly not to justify dismantling too much of Europe's labour and social systems. But clearly all is not well.

Most governments across Europe have taken at least some steps to reduce labour costs, employment protection, social security benefits or (in Britain's case) union power. Meanwhile, companies are putting flexible working time, changing skills, employee involvement, performance-related pay, quality, part-time and contracted-out work on agendas across the continent.

Unions protest that the "flexibility" cult is a euphemism for wage cuts and inequality, but even many defenders of Europe's unionised, welfare society admit part of the argument even while groping for an alternative.

As one French state planning official puts it: "We must have a more flexible society and firms. We must take risks. But we have to find a new way between the individualist and collective positions. We are not able to become Californians or Japanese. It is not in our culture."

Britain's Mrs Thatcher has waved the flexibility flag with regulation of union activity, reductions in unemployment pay, large tax cuts for top earners, relaxation of unfair dismissal laws, lowering of national insurance contributions for low-payed workers, proposed "portable pensions," and moves to scrap or restrict minimum wage-fixing institutions.

Other, more consensus-minded governments are more cautious about dismantling labour and social traditions which served countries like West Germany, France, Belgium and the Netherlands so well in the 1950s and 1960s.

The UK is alone in singling out union power as the main market distortion. As it is, despite piecemeal labour market measures, Europe is still heavily regulated by comparison with the U.S., where for example there are scarcely any legal constraints on dismissal—though the American labour market is not as free of rigidities as some of its supporters claim.

- West Germany is temporarily extending the use of short-term employment contracts, and a small degree of decentralisation in bargaining has followed last year's metal-workers' dispute; differing working hours emerged between sectors, and some freedom was won by engineering employers to negotiate varying hours around 38½ a week. But the German labour market remains an ordered one, with statutory works councils, multi-employer bargaining, and 90 per cent of workers covered by union agreements against 25 per cent in America. Payroll taxes and benefits add 78 per cent to employment costs, against 28 per cent in the U.S.
- The Dutch Government has cut public sector wage growth, trimmed social security benefits, and proposes to speed up dismissal procedures. Wage growth has slowed, youth pay has been trimmed, and bargaining has become more decentralised. But the OECD's last report on the Netherlands specifically called for wider pay differentials and more flexible working time.
- Belgium has curbed wages, relaxed dismissal procedures, extended short-term contracts for young workers, permitted variations in working time, and weakened the works council system in small companies.
- In France, unions threw out a draft agreement to lengthen short-term contracts and allow more temporary workers, speed up redundancies, and give growing companies more time before they have to set up employee representative bodies. The agreement would also have allowed hours worked to be counted by the year rather than by the week, in return for negotiations on shorter hours and new technology. Further talks between unions and employers on redundancies and retraining have collapsed.
- In Italy, in theory at least Europe's most over-regulated country, employers are threatening to stop paying index-linked wage rises next February in a bargaining tactic to reduce the level of indexation. The Government proposes to introduce part-time work in the public sector, and introduce an element of employer choice in the compulsory state-run recruitment service.

To the free-market Americans, all this is confirmation that narrow pay differentials and generous unemployment benefits make people reluctant to move house or change job. They argue that high minimum wages thwart the hiring of young recruits, that inflexible wage bills are swelled by high payroll taxes, fringe benefits and generous holidays, and that recruitment is discouraged by laws which make it hard and costly to fire people. The Patronat, the French employers' federation, says companies have even gone bankrupt awaiting government approval for redundancies.

Cuts in unemployment pay in the Netherlands, France, Denmark and Germany still leave many European workers on 60 to 70 per cent of their former pay for a year, compared with 45 per cent or less for shorter periods in the U.S.

The American comparison is important because the freer labour market there is often cited as one factor behind the creation of more than 7m new jobs since the depth of recession in November 1982, and 17m between 1970 and 1983. Over the same 13 years, by contrast, EEC countries lost more than 1m.

Yet the comparison may not be as simple as it looks. U.S. unemployment remains at a level which would have been considered recessionary a decade ago. Only recently did it dip below the European level. It was higher every year from 1960 to 1982, largely because the U.S. had to absorb faster labour force growth.

There is also a debate about the quality of the often lower-paid service jobs which have continued to grow while U.S. manufacturing remains depressed. "Half the country is doing the laundry of the other half. That's how we are creating jobs. You cook my hamburger today, I cook your hamburger tomorrow," says Murray Seeger, director of information at the AFL-CIO, the union federation.

This is more than just special pleading for the smokestacks; there is a disturbing underside to the Reagan miracle. Food queues and soup kitchens have sprung up in once-prosperous working-class suburbs of cities like Cleveland and Chicago.

The U.S. labour market has more rigidities than is commonly imagined, notably inflexible work rules and "seniority"—the highest-paid jobs going to the longest-serving workers—in the blue-collar sector.

Of course the U.S. system is in other ways freer, but that has always been so. "People were mobile in the Great Depression. It doesn't necessarily create jobs," says Seeger.

At best, labour flexibility can have been only one factor among many in the past decade's strong U.S. recoveries. Bigger ones were the consumer's willingness to cut savings in order to finance consumption after 1974-75, and the indifference which consumers and investors—encouraged by tax cuts and the tax system itself—showed to high real interest rates in 1983-84.

At least some of the recent employment growth must be attributed to the demand stimulus created by tax cuts, defence spending and soaring budget deficits, along with the relaxation of monetary policy in late 1982 and early 1983.

Japan provides a different model. Though the extent of lifetime employment in Japan and firing in the U.S. are often exaggerated, the average Japanese holds a job for 23 years compared with 17 in Europe and 14 in the U.S. Many larger European companies are attracted by the Japanese example: flexibility of working practices can go hand in hand with job security.

"If you want to build trust, hiring and firing people creates instability," says Berth Jonsson, vice-president for organisational development at Volvo of Sweden." Some U.S. companies are attracted too. Fred Foulkes, director of the Human Resources Policy Institute at Boston University, named People Express, General Foods, Xerox, American Airlines and Control Data as among companies joining 30 existing big names which operate no-lay-offs policies.

But European caution should not mean complacency. Europe's employment record has become increasingly unrelated to changes in economic activity since 1973, implying sclerosis somewhere in the system. Labour cost relative to the rate of return on capital rose by 4 per cent a year in the last decade, hastening the displacement of workers by machines.

In the two recent recessions real wages rose in many European countries, sometimes faster than productivity, and fell in the U.S. With some justification, wage moderation is therefore central to the new model towards which Europe is hesitantly groping.

Nominal and real wages growth has slowed since 1982 but as yet there has been little impact on unemployment. And many of the suggested routes to greater wage flexibility are problematic.

Decentralisation and tailoring of pay rates to local markets and company conditions appears attractive, but the evidence of its effects is mixed. In most American states, there seems little correlation between wages (both levels and rates of change) and unemployment.

Such measures do not necessarily encourage wage moderation. Relatively fragmented bargaining in Britain's private sector has not prevented uncomfortably high real wage growth, while the Government eschews central mechanisms to control it.

European employers often look wistfully at what they consider to be U.S. wage flexibility, including recent developments like union "give-back" pay concessions and lower scales for new recruits. But the real wage reductions in the two recessions could hardly be ascribed to flexibility—they happened not because the nation responded by suddenly taking pay cuts, but because nominal wages carried on growing at the same, steady rate even when prices leapt temporarily above them.

On hiring and firing, European measures on temporary and part-time work are hastening the creation of a dual labour market, which unions fear will create social divisions between "core" workers and insecure, low-paid peripheral ones.

For now, however, the division between those with and without jobs is greater. Wage differentials could probably be widened a bit even in an egalitarian country like the Netherlands without social dislocation, though how much difference a small change would make to incentives is debatable.

There is certainly more to European uncompetitiveness than just rigidities in the labour market. Other areas are at least as important — principally the climate for innovation and the overall level of demand.

The most crucial labour measure to be taken is to improve the level and quality of training. Skill shortages are occurring not just in Britain but in countries like the Netherlands, where it can be hard to get a good fitter let alone an electronics engineer.

The overall picture is of a Europe prepared to see wide-ranging but not cataclysmic change. "Perhaps a little flexibility at the margins will be all that's needed," said one OECD official. Many will cross their fingers and hope that is so.

Previous articles appeared on June 17, 19, 21, 24, 26, 28 and July 1. The next will be published on Friday.

BUSINESS PROBLEMS

BY OUR LEGAL STAFF

Subsistence

I employ a consultant to help me in the office for a number of weeks each year. He lives 40 miles away and I pay him a fee and modest subsistence expenses. I also pay his hotel bill to save him travelling.

Now the Inland Revenue proposes to tax him on the subsistence allowance. This seems unfair, as the cost of subsistence in this large city is much more than would be the cost of his meals at home. The Inland Revenue quotes section 31 of the Income and Corporation Tax Act 1970. Is this right?

The inspector is referring to section 131 of the Income and Corporation Taxes Act 1970 (not section 31). On the bare facts outlined, the answer is yes.

Changing tack

I have been running a business for several years in partnership, paying tax on a previous year basis. We are now considering disposing of the goodwill and assets of the business and re-investing in part-residential, part-business property with a view to holiday letting on a fairly substantial scale.

1—If we dispose of the business would we automatically change to an actual year basis for income-tax purposes, even though there is no change in the partnership, only a change in the type of business being conducted? If so, how soon after the disposal would this become effective? Is there any way to avoid this?

2—Would the above reinvestment satisfy the tax office with regard to the rolling over of capital gains tax? Would we in this instance be able to split the value of the property to avoid any potential capital gains tax on the residential part of the property?

1—Yes, for the year of cessation (and for the preceding two years, if that is to your disadvantage).

2—Not necessarily; you should seriously consider incurring the expense of professional guidance through the tax maze, even though you have managed without an accountant up till now.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

TECHNOLOGY

EDITED BY ALAN CANE

Tune into cheaper rural telephones

Geoffrey Charlish on a radio that can cut costs by transmitting four conversations at once

A DIGITAL radio system that enables four conversations to take place at the same time on a single ultra-high frequency (UHF) radio channel has been developed by International Mobile Machines of Philadelphia.

Although the system has important implications for cellular and other mobile radio services, Mr William Hilsman, president and chief executive of IMM, believes the first applications will be in rural, fixed telephone networks. He claims his system, called Ultraphone, is cheaper to install than the long telephone cables normally needed in such areas between exchange and subscriber.

In London recently, Mr Hilsman revealed he had been trying to interest both Plessey and British Telecom in the system. In the U.S., testing is in progress with four local telephone companies.

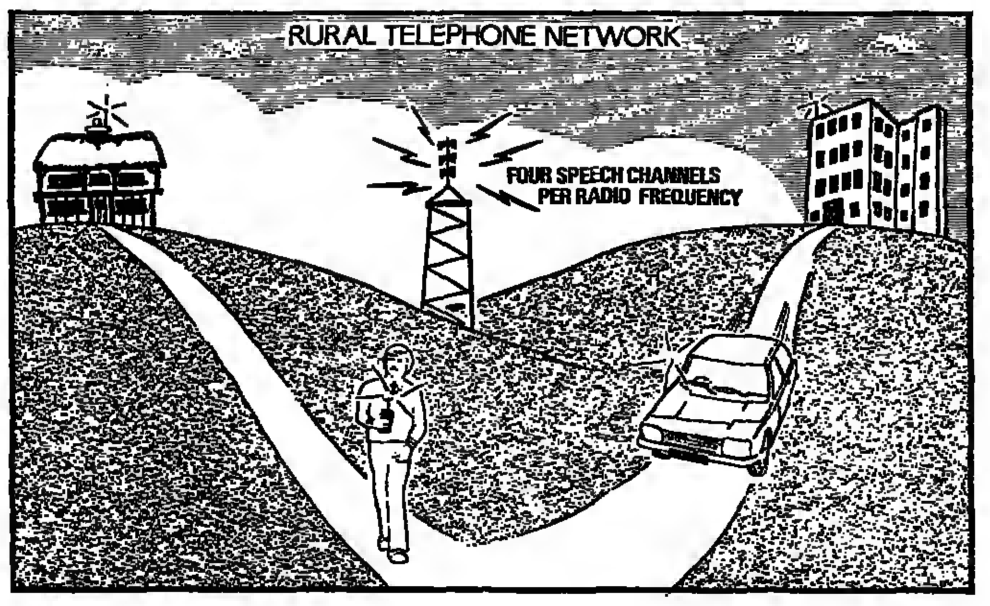
The market in Europe however, where most telephones are installed in well populated areas, is expected to be fairly small. Mr Hilsman thinks his biggest opportunities will arise in underdeveloped countries where a greater proportion of telephones will be connected in outlying districts.

Had the world's cellular radio operators not committed themselves to conventional analogue radio, this new digital system would no doubt interest them as well, because reports are now emerging from the U.S. of channel shortages—the very problem that cellular radio was supposed to remove.

Cellular radio in a city uses a number of geographical cells each with its own low power transmitter instead of one big one in the centre. This allows the frequencies allocated to one cell to be used in another cell elsewhere in the city without mutual interference, increasing the number of available channels. Cars are allocated new frequencies by computer as they move from one cell to another.

As the number of subscribers increases, the idea is to split the cells into smaller areas, but there are signs that the computers are not coping too well.

IMM's four channels on one frequency would be valuable to cellular operators, but they would have to change to digital transmission from analogue. That change is tentatively planned in Europe, but not for at least a decade.



Different messages can be transmitted to four separate points using a single radio frequency

In developing Ultraphone the U.S. company has brought together two technologies — time division multiplexing (TDM) and digital compression.

In TDM, each audio signal is turned into a train of pulses, rather like morse code. Each of the four trains of pulses is slightly displaced in time from the others, allowing them to interleave and exist on the same wire (or the same radio channel) at the same time.

A time-sensitive circuit at the other end separates the four trains and converts them back into speech. TDM has the advantage that noise and distortion are greatly reduced.

In addition, with care and skill the number of pulses needed per second can be reduced without affecting speech quality. IMM has used its own version of digital compression to cram four channels of speech on one radio channel. With further development, Mr Hilsman believes it will be possible to carry eight or more channels.

Until recently, Mr Hilsman was a lieutenant general in the U.S. Army. The army has an obvious interest in pulse transmission systems because they can be made secure simply by re-arranging the time position of the pulses and restoring them, according to a key, at the receiving end. The process is called encryption. Mr Hilsman has been in charge of both the National Communications and the Defense Communications Systems

Ultraphone in its final form will be able to provide "scrambling" relatively cheaply — the circuits can be realised on a single chip, says Mr Hilsman.

In a rural area, the system can meet all local communications needs, fixed and mobile. Any of the four speech channels on any of the allocated UHF frequencies can be assigned to any user.

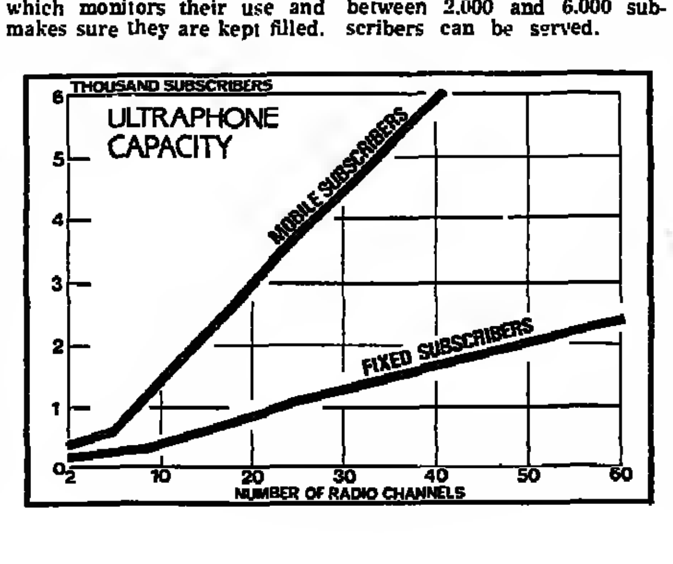
The channels are assigned to users by a central computer which monitors their use and makes sure they are kept filled.

In conventional radio systems, each user has his own frequency, which often is unused for long periods of time. The new approach, called "trunking" is on trial in the London area in a separate, unrelated British experiment.

The base station for Ultraphone contains transmitter, switching computer, and a means of connection with the conventional telephone network, locally or remotely.

The subscriber equipment carries out digital signal processing, modulation and radio transmission and is connected to a normal handset which is used like a normal telephone.

With an allocation of say, 40 UHF channels, IMM says that between 2,000 and 6,000 subscribers can be served.



Michelin wheels out the plastic tyre valve

NEW ENGINEERING materials such as plastics and ceramics which are as strong and long lasting as the metals they replace are making a significant contribution to cutting manufacturing costs. One, however, is at the rim of its own particular revolution rather than at the hub.

In France, Etablissements Vapé, a valve manufacturer based in Oyonnax, has been working with the tyre manufacturer Michelin to produce a valve consisting only of three snap-fit parts plus a metal spring. A traditional metal valve has 11 separate components.

Neither Vapé nor Michelin are prepared to disclose manufacturing costs but the industry estimates that the new process may have cut the cost of producing a valve by up to 30 per cent.

The valve is moulded in a new engineering material made by Du Pont called Delrin, a man-made resin which is strong, rigid, and resists fatigue and corrosion.

According to Du Pont it is easy to mould and able to resist wide variations in temperature, high humidity, oil, grease, and dirt thrown up from the road.

The new valve is being used in bicycles and Michelin is introducing a larger version on tubeless tyres for cars.

This version, called the VMP 413, has special advantages for bigger tyres run at higher speeds. Traditional rubber valves can change shape at speeds over 110 km an hour (70 mph), allowing air to escape between the valve and the rim on tubeless tyre.

Because it is lighter and more rigid the new plastics valve is not deformed by centrifugal force. Also, because it becomes part of the wheel rim when snapped into the aperture there is no air loss.

The car tyre valve is designed to work at pressures of up to eight bar (112 lb/sq in) much higher than the limit for rubber valves.

The manufacturers claim they have simplified inflation and deflation of the tyre through a novel system for locking the valve core in the open position.

Which should be good news for ham-fisted cyclists who invariably deflate their tyres while fiddling with conventional valve cores.

Alan Cane

New IBM bank computer

IBM, a major supplier of banking automation equipment, has reinforced its commitment to the "branch processor" concept — the use of a small computer powerful enough to deal with all the requirements of an average-sized branch — with the announcement of a new model, the 4702.

IBM says the new computer can handle a range of financial processing tanks such as teller transactions, loan processing and automated teller functions.

This approach to banking automation — shared by companies like Philips—is in contrast to the "workstation" approach of Burroughs, where every workstation or personal computer is powerful enough to act as the master processor and no single workstation is dominant.

The new processor is part of IBM's 4700 financial family: a basic configuration consists of the computer with 512,000 bytes of main memory and a 5.25 inch diskette drive with 1.2m bytes of storage.

The main memory can be increased in 512,000 byte or 1 megabyte increments to a maximum of four megabytes. A 1.2 megabyte diskette drive can be added.

Siemens' DM100m for academics

SIEMENS, the West German electrical plant, is to spend DM 100m over the next five years on sponsoring university research on a range of projects including computer-aided design techniques for semiconductors and basic research in physics and chemistry.

Professor Karl Heinz Beckurts, Siemens head of research, says the company wants to improve the ability of universities to do useful research and to turn out qualified people.

Universities at Karlsruhe, Frankfurt and Hanover are already collaborating with Siemens on the design of microchips using computers.

Microfilm libraries go electronic

KODAK and Digital Equipment Corporation (DEC) are to undertake a co-operative development programme for the KIMS project.

KIMS—Kodak Image Management System—was revealed by the photographic company last year. It is a system that mixes microfilm storage with electronic transmission and presentation of information, with conversion between the two.

It will allow office workers to access and work with document image files in much the same way as they now handle data files using "all-computer" systems with magnetic storage.

Kodak will assume marketing responsibility for the end product and will provide the image-related technologies and components of the system, together with the application software. DEC will provide computer systems, terminals, magnetic storage, networking and system software.

Robots help sort parcels

IN THE U.S., International Robomation / Intelligence (IRI) has won a contract from Federal Express Corporation to supply machine vision systems to automate package sorting operations.

Federal Express is a leading overnight door-to-door delivery firm and its sorting lines will be equipped with IRI P256 vision computers linked to cameras, lights and application software.

When the system senses a package, it locates the address label, reads the postal code on the move and passes the information to the sorting mechanisms.

The system works at one package per second and is insensitive to the angle at which the label is presented to the cameras.

UK COMPANY NEWS

GEC below expectations at £725m

THE LATEST in the growing list of disappointments from the electrical sector came yesterday with the announcement of the General Electrical Company's results for the 1984-85 year.

The pre-tax result for the period ending March 31 1985 came to £725m, an increase of £54m over the comparable figure, but this was well short of even the most pessimistic analyst's forecasts, which ranged from £740m to £770m.

The markets, which have marked down the most prestigious of electrical/electronic shares in the past few weeks, reacted to the announcement by knocking 4p off GEC's shares to 162p—just short of the 1985 low—but later relented. The shares closed at 166p.

As expected, the company received a considerable boost from non-trading activities in the form of interest receivable on its substantial cash mountain. This added £176m to the profit and loss account, against £141m, but the cash pile itself was down. Bank deposits, short dated and other current asset investments and bank balances amounted to £1.41bn against £1.56bn.

Three of the group's operating divisions showed a downturn—telecommunications and business systems, automation and control, and electrical equipment — but the shortfall was more than made up by the electronic systems and components sector which showed an increase of £38m to £235m.

All other sectors showed slight rises, with power generation ahead by £3m at £55m. It had been expected that this division would show a benefit from a sizeable number of equipment deliveries. Medical equipment made £5m more at £29m, and consumer products were up from £23m to £27m. Distribution and trading was unchanged at £14m.

Group turnover was up from £5.03bn to £5.54bn, with by far the largest chunk still coming from the UK at £2.72bn against £2.42bn. The Americas topped the £1bn turnover mark for the first time with £1.14bn against £967m. The rest of Europe accounted for £10m more at £509m, and Asian sales moved ahead strongly from £594m to £707m. Sales in Africa and Australia slipped to £237m (£306m) and £229m (£247m) respectively.

Exports from the UK rose from £1.21bn to £1.23bn, with export orders received standing at £1.16bn against £887m.

Included in the figure for investment income is a revaluation adjustment of credit £16m (£14m) on the group's holding of foreign currencies.

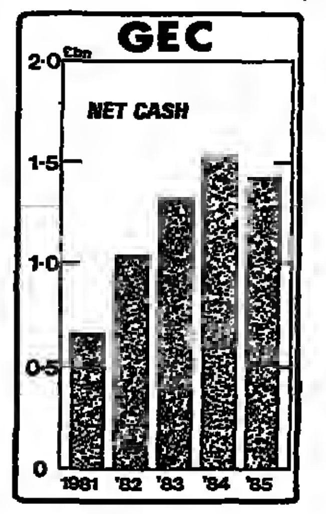
A final dividend of 2.65p (2.3p) lifts the total from 3.45p to 4p, which will take £107m (£95m). The company states its earnings per share at 14.9p against 14.2p after a tax charge of £299m, up from £268m, before extraordinary credits amounting to £5m (£21m).

See Lex

DIVISIONAL PERFORMANCE ANALYSIS

	Pre-tax profit 1985 £m	Pre-tax profit 1984 £m	Turnover 1985 £m	Turnover 1984 £m
Electronic systems	235	197	1,861	1,578
Telecommunications	81	93	746	735
Automation	48	52	463	436
Medical	29	24	472	435
Power generation	55	52	655	623
Electrical	42	49	815	750
Consumer	27	23	300	279
Distribution	14	14	227	197

Lord Weinstock, managing director



English China unwanted shares sold at premium

By Stefan Wagstyl

City institutions, which underwrote the £89m rights issue from English China Clays, have been spared at the last minute from having to take up unwanted shares.

Shareholders accepted just 52 per cent of the shares on offer, after the stock market fell heavily in the wake of the announcement of the issue earlier this month.

But ECC's financial adviser J. Henry Schroder Wagg and De Zoete and Bevan, its stockbroker, yesterday sold all the unwanted shares at 220.375p, a slight premium to the 220p issue price.

● Meanwhile, the directors of Emess Lighting and their underwriters saw the company's rights issue 96.1 per cent subscribed.

And the offer for sale in insurance broker Bradstock Group was subscribed one to two times. Merchant bank Kleinwort Benson is expected to announce the basis of allotment today.

Lincroft lifted by investments

BOOSTED by realised gains on investments, Lincroft Kilgour Group improved taxable profits by 42 per cent in the six months to March 31 1985.

Trading profits moved ahead from £328,900 to £393,300, but more than half the £192,400 rise at the pre-tax level to £651,400 came from net realised gains on investments, less the amount written off. This made £114,000 more above the line at £169,100. There was also an increase in investment income, up from £74,900 to £89,000.

Mr Anthony Holland, the chairman of the group, which in addition to its investment holding activities has interests in cloth merchanting and bespoke tailoring, does not suggest that an investment performance of this order can be maintained in the second six months.

"Indeed, we expect conditions in the UK market to become more difficult and we have started to adopt a more defensive stance by increasing liquidity and looking for more opportunities overseas," he says.

The rise in trading profit occurred despite the absence of a contribution from the now defunct uniform manufacturing division, which last time turned in £75,900 on sales of £344,200.

Continuing textile activities increased trading profit by 50 per cent, with the bulk coming from cloth merchanting at £301,100 against £161,600 on sales of £4.08m (£3.22m). Bespoke tailoring added £40,400 (£28,800) on sales of £393,700 (£344,200).

Total group sales were up from £3.92m to £4.47m.

In the chairman's year-end statement, he emphasised the group's efforts to build up a regular franchise income. This revenue is shown in the trading breakdown as "other operating income," and came to £85,600 against £62,500. Mr Holland believes that these receipts will continue to grow steadily.

The interim dividend is raised by 0.5p to 2p following a 5.5p total last time. After a tax charge of £277,100 (£181,700), earnings per share came out at 8.1p (6p).

GA boosts bonus rates

General Accident Life Assurance, a member of the General Accident Insurance Group, has announced substantial increases to its terminal bonus rates applicable to claims arising as from the beginning of this month.

For life contracts issued since 1982, the rate is lifted from 55 per cent to 65 per cent of attaching and interim bonuses, while for pension contracts issued since 1982 the rate rises from 40 per cent to 45 per cent of attaching bonuses.

Terminal bonus rates on with-profit contracts issued before 1982 are also being increased significantly.

Mr Norman Graham, general manager and actuary of General Accident Life, said that these increases reflected the company's continuing excellent investment performance and the favourable tax changes in the current *Finance Bill*. *It would also* enable the already high returns on GA's life and pensions contracts.

M. Black returns to market as hotel group

By Lucy Kellaway

MARTIN BLACK, the shares of which were suspended a year ago when the company pulled out of wire-making, is returning via the USM, as a hotel group.

The company is to acquire Dean Park Hotels, which owns and operates three hotels in Glasgow, Watford and Stevenage, after which it will change its name to Dean Park Hotels Group. The deal, which is subject to shareholders, approval, will be funded by the issue of 4.5m shares.

Hambros is bringing the company to the USM with a placing of 450,000 existing shares at 51p each, well above the 22p suspension price of May 1984. Hambros has also agreed, for a period of three days after dealing starts, to buy out existing shareholders at an agreed price of 51p. Holders of 2.5m of the company's 6.5m shares already in issue have given guarantees that they will not be selling their shares during that period.

Under the terms of the purchase, Martin Black will issue 4.5m new shares to the vendors on completion, and a further 1.7m related to performance. The three hotels have recently been valued at £7.95m, and the company has a net asset value of £3.8m. The Dean Park Group will have net assets per share on completion of 68p.

Dean Park has produced pre-tax profits in the region of £350,000 in each of the past five years, with the exception of 1985, when profits fell to £17,000 following a £424,000 interest charge on borrowings used to finance the hotels acquisition.

The new group will have almost no borrowings. While the directors have made no profit forecast for this year, payment to vendors of the additional shares begins on the achievement of profits in the present year above £550,000.

Sir Ian Morrow, chairman of Martin Black, will become chairman of the group, and the managing director, Mr J. Kennedy, will become a non-executive deputy chairman. Mr M. Gold and Mr D. Newton, at present executive directors of Dean Park, will be joining the board. Dealings start on August 1.

● comment

Prospects for Martin Black's shareholders are today far brighter than they were when the shares were suspended. Having sat on an investment stuck at 22p and with no yield for more than a year, they may feel inclined to accept Hambro's 51p cash price gratefully and get out altogether. However, the deal does have some tempting elements. The new owners of Dean Park are in the process of vigorously shaking up a down-at-heel cluster of hotels, and after completely redecorating them profits should more than double following a tripling of room prices. However, shareholders are being asked to take rather a lot on trust: the new owners of the group come without much direct experience in the running of hotels, although the 25 per cent discount to asset value seems to take some account of this. If the company makes profits of £525,000 in the present year the shares are on a p/e of 17 which may not leave too much room for immediate capital gain.

CML up 48% despite second half sales slip

CML Microsystems, the Essex based manufacturer of integrated circuits, lifted pre-tax profits by 48 per cent in the *1984-85 year, despite a second* half in which sales were constrained by the recession on the semi-conductor market.

Mr G. W. Gurry, the chairman of this USM concern, says that an upward trend was re-established in the closing months. Sales for the year to March 31 rose from £4.23m to £5.78m, and produced pre-tax profits of £1.35m against £912,204.

He adds that the group is well placed for further growth, and that the expan*sion of activities into suitable* areas is under consideration.

With earnings per share up from 6.8p to 9.9p, the directors are to recommend a maiden dividend of 1.4p. This will cost £120,400, after a tax charge of £469,815 (£338,850) and minority interests of £28,648 (£13,573).

Mr Gurry says that investment plans for the year were on course, with some £0.7m spent on expanding R&D and production facilities in the UK and U.S. Cash reserves showed an increase over the previous year and net borrowings were nil.

LADBROKE INDEX
944-948 (−10)
Based on FT Index
Tel: 01-427 4411
July 4 closing at 6 pm

Vosper incurs £1m loss and warns on current year

Vosper, the Hampshire-based shipbuilder, shiprepairer and engineer, plunged deeply into the red over the second six months and finished the 1983-84 year £1.02m in loss at the pre-tax level.

And, with losses of 24.8p per share the final dividend, like the interim, is also being passed—last year shareholders received a total payment of 5.25p from pre-tax profits of £2.05m.

In the current year the group is still suffering from a continuing recession in shipbuilding and related industries and on the basis of unaudited management accounts a loss in the order of £2.5m is expected for the opening six months to end-April.

The directors say Vosper's working capital position remains under pressure due to the continuing low level of orders. They add, however, that a number of substantial orders are under negotiation and that they are confident that some will be successfully concluded in the near future.

Vosper's bankers are continuing to maintain their support, but shareholders are told that further orders are essential to secure the group's financial position.

Sir David Brown, president of Vosper and David Brown Holdings, the ultimate holding company of Vosper, have agreed as a temporary measure to provide additional finance in anticipation of the orders under negotiation being finalised.

In a trading statement last December the directors warned that losses for 1983-84 would be in the order of £1m. Nonetheless, the group's shares closed yesterday 35p down at 190p after rising to 230p at one stage.

Turnover for the year, to October 31 1984 dived from £26.13m to £17.05m. The loss was brought about by a disappointing level of order intake throughout the group.

Profits for the first six months were £30,000 ahead at £782,000 but in the second half the group ran up losses of £1.8m.

Tax for the year accounted for £480,000 (£946,000) and extraordinary items for £2.03m.

The group's holding in Yarrow was sold at a profit of £1.8m over the cost value of £1.2m. The directors do not believe the profit will be subject to tax as a result of reliefs available. They point out, however, that group accounting treatment of the disposal required the elimination of £3.2m of group reserves which arose from consolidation of the attributable profits of Yarrow.

The group's claim for additional compensation, at present before the European Court for Human Rights, is not expected before the end of 1985. The additional claim, based on the value of the nationalised shares in 1977, amounts to £32.4m together with interest from that date up to settlement.

If the claim succeeds in full it is likely to exceed £60m before tax.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div.	Total for year	Total last year
CML‡	1.4	Aug 19	—	1.4	—
GEC	2.65	Oct 1	2.8	4	3.45
Lincroft Kilgour ...... int	2	Sept 5	1.5	—	5.5
Mountleigh	4.5	—	4.5	6.5	5.5
Pepe Group‡	1.5	Oct 1	—	1.5	—
Vosper	nil	—	3.25	nil	5.25
Alfred Walker	0.75	Oct 30	0.75	0.75	0.75
Rex William Leisure‡ int	0.42	July 30	nil	—	nil

Dividends shown pence per share net except where otherwise stated.

* Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock.

● comment

Vosper's result may have been grim but it was not unexpected: the group warned as long ago as last December when it paid off £2.2m in borrowings from the National Research Development Corporation that it had suffered a trading loss for the year of about £1m. Prospects do not appear to have brightened much since: shipbuilding is still in the doldrums and the group is heading for heavy losses in the first half of this year. Vosper reports a healthy level of inquiries but its full-year performance will depend on the unpredictable extent to which they turn into orders in the second half. The most surprising thing about yesterday's result was that anyone was surprising by it: the share price shed 35p to 190p after the announcement. A goodly chunk of the earlier price appears to have been reflecting the possibility of success at Strasbourg rather than Vosper's underlying trading position, and some investors have been brought back to earth with a bump.

Benjamin Priest recovering

AFTER TWO years of losses and a major capital reconstruction Benjamin Priest Group, the West Midlands engineer, ended the year to March 29, 1985 showing a small profit.

On *turnover down by* 22 per cent from £40.6m to £31.57m, pre-tax profit was £361,000, compared with loss of £1.32m for the previous year. The board does not feel, however, that the performance justifies the resumption of a dividend payment.

The directors say that the year was one of significant change and reconstruction. Trading conditions were mixed, with many customers in the automotive industry suffering industrial relations problems. "In spite of this, encouraging progress has been made."

The refinancing in October 1984 raised £3.23m net and four loss-making subsidiaries had been closed or sold. The results for the period exclude sales of £3.51m for the companies and pre-tax losses of £692,000.

A provision of £5.23m was made in 1983-84 to cover closure costs of Benjamin Priest and *Sons* and the *loss on investment* for the other three. This was adequate.

During the period bank borrowings fell to £3.09m from £8m with gearing down sharply from 146.7 per cent to 40 per cent.

The pre-tax figure was struck after interest changes of £662,000, a fall of 33 per cent from the previous year's £982,000. With tax at £57 (nil), no extraordinary items, compared with £5.23m last time, and an accrual for preference dividends of £132,000 (nil), retained profit was £172,000 against a loss for 1983-84 of £6.55m.

Earnings per share came out at 1.02p (7.81p loss), or 0.72p on a fully converted basis.

The directors say that although satisfactory progress was made since the financial *reconstruction some* of the benefits of the rationalisation programme are still to be realised.

The present year has started reasonably but trading conditions are becoming more competitive in certain areas.

Opportunities for the development of the group, possibly by acquisition, are being sought.

During the year another former Delta Group director, Mr Ronald Asserson, joined the board as a non-executive director. The chairman, Mr Christopher Walliker, and the chief executive, Mr David Abel Smith, are both former Delta directors.

Cullens sells off-licences to Whitbread for £0.9m

BY ANDREW ARENDS

Cullens Holdings, the stores group taken over last December after a bid battle by three former Imperial Group executives, yesterday announced that it had sold 16 off-licences, located in the South East, to Whitbread, the brewers, for £900,000 in cash.

Cullens also said that it had sold its Battersea warehouse to Hilstene Development, a property company, for around £500,000. The company added that offers had been accepted for another four off-licences, and negotiations are continuing for the sale of the seven remaining outlets.

Mr Peter Matthews, Cullens' chairman, said yesterday that the disposal of the wine and spirit division would provide funds for re-investement in the group's grocery and convenience stores, as well as reducing group borrowings.

According to Mr Matthews, the wine and spirit division was "marginally profitable" last year, on turnover of around £7m. He said that turnover of the slimmed down group, on the basis of last year's figures, would be around £20m, prior to any growth.

Lucas raising £18m for U.S. purchase

Lucas Industries, the aerospace and vehicle components group, yesterday placed nearly 6.1m shares on the stock market to raise £18m to finance the purchase of Duralith, a New Jersey-based maker of graphic control panel assemblies.

Cazenove, the stockbrokers, placed the £1 shares at 295p each with institutional investors. The new shares represent 8.7 per cent of Lucas's issued share capital.

Lucas announced on April 26 that it was launching a $23.7m cash bid for Duralith in what was the British company's first acquisition in three years, following a long period of restructuring.

UK COMPANY NEWS

A. Walker to double its net asset base

Alfred Walker, the property group, is seeking a firmer foundation by the acquisition of a Birmingham property which will double its assets. The company announced yesterday that it had entered into a conditional agreement to acquire the Tyseley Industrial Estate for £985,000.

The company balance sheet at the end of April 1985 showed assets of £738,000.

Mr John Donachie, the chairman, said yesterday that the property market was volatile and the company had been looking to acquire interesting properties to provide a more stable base.

It is intended to finance the purchase principally by a rights issue of 8¾ per cent convertible preference shares of £1 at par on the basis of one for every two ordinary shares held. The issue is being underwritten by Brown Shipley and Co.

Most of the Walker shareholders are institutions with the Morgan Grenfell Special Exempt Fund having a near 20 per cent holding. Mr Donachie said that the issue had been tailored for the institutions and was confident that it would be taken up.

If the total issue is taken up the company's capital base will be increased six times. The closing date for acceptances is August 16.

An extraordinary general meeting has been called for July 25 to approve the changes.

The company is also seeking to increase its authorised ordinary share capital from £200,000 to £375,000.

For the year to April 30 1985, pre-tax profit was £25,000, compared to £4,000 for the previous year, on turnover down by 16 per cent to £934,000 (£1.11m).

Dividend for the year is maintained at 0.75p net.

The chairman says that in future the group will no longer undertake small renovation projects but concentrate on substantial development schemes.

"This company is now actively involved in the promotion of projects in the field of retail store developments and town centre schemes. We do not wish to tie up our small capital base in anything other than an attempt to secure major returns from larger developments," Mr Donachie says.

Pepe beats forecast and ahead in current year

THE Pepe Group has beaten its prospectus forecast by over £100,000 and has started the current year with sales ahead of 1984 levels. Its products are being well received in the U.S. and demand is growing.

The group, a designer, importer and wholesaler of casual wear and jeans, saw its profits before tax rise to £2.63m over the 12 months to end-March 1985, despite the weakness of sterling earlier this year.

This compares with the previous year's £915,000 and the directors' forecast of not less than £2.5m made last February at the time of Pepe's entry to the USM.

Shareholders are to receive the promised final dividend of 1.5p net per 10p share—in future years the group intends to pay both interims and finals.

For the 1984-85 year group turnover surged from £8.98m to £19.91m.

Mr Roger Rowland, the chairman, says the business grew substantially compared with the previous year and that the first contribution was received from the group's expansion abroad.

He explains, however, that the major reasons for growth were a wider customer base in the UK and the bigger range of merchandise offered.

Tax for the year accounted for £1.18m, compared with £416,000, and minorities for £36,000, against £9,000.

Available earnings came through at £1.38m (£480,000) after deducting pre-acquisition profits amounting to £40,000 (£10,000) of subsidiaries acquired for cash.

Dividend payments will absorb £352,000 to leave a retained balance of £1.03m. Earnings per share improved from 2.7p to 7.8p.

The refurbishment of the new headquarters in North London is progressing according to schedule and the group should be installed by the end of the year.

● comment

Pepe's debut on the USM in March was such a flop, with the shares going to a 30 per cent discount, that it may take some time before the company can establish its reputation in the market. These results, a safe margin over the forecast, should start to repair some of the damage, and yesterday the shares climbed 5p to 82p, still well below the 100p issue price. Pepe has achieved all that it said it would, and the current year seems to have started well. Future growth should come from greater penetration into the U.S. market—the number of customers has grown from 200 to 300 since the flotation—and from the addition of new product ranges, including clothes for children and lines designed especially for women. With only 3 per cent of the £1.1bn market for casual clothes in the UK, there is plenty of scope for expansion here, too. The risks in the fashion market have been demonstrated twice recently by disappointing figures from Cecil Gee and French Connection. However, Pepe is not showing signs of coming unstuck, and its shares are trading on an overly cautious multiple of 9, given profits of £3.5m and a 40 per cent tax charge.

Midway advance for Rex Williams

Rex Williams Leisure, manufacturer and distributor of pool and snooker tables, has reported a rise in pre-tax profits from £68,000 to £73,000 for its first six months on the USM.

In the period to end May 1985, turnover increased by £19,000 to £467,000, although operating profits were down from £76,000 to £67,000.

The directors are paying the 0.42p interim dividend forecast at the time of flotation. They also forecast a final of 4.49p.

The expansion programme into light metered snooker progressed at the same rate as that achieved in the comparable period. At end-May 167 units were sited, 31 more than at the year end in November. During the same period the company's own operated pool and snooker units fell from 955 to 907.

Mr Rex Williams, the chairman, says that in order to improve growth the company has increased its sale activities, but although some success is being seen, the full impact of the efforts will not be realised in the current year.

With the company placing greater emphasis on light metered snooker, a more seasonal game than pool, he says that it is unlikely that the growth which had been anticipated in the second half will materialise.

The pre-tax result was struck after interest received added £6,000 (payable £5,000). Tax took £14,000 (nil).

Mountleigh soars 49% to £2.5m

THE Mountleigh Group returned results ahead of directors' expectations for 1984-85 and looks to the current year for further substantial progress.

For the past year, to April 30, 1985, total income surged from £6.59m to £20.37m, generating pre-tax profits of £2.53m, compared with a previous £1.7m, an improvement of 49 per cent.

And with earnings emerging 8.89p ahead at 35.4p the dividend for the year is being increased by 1p to 6.5p net by a final of 4.5p.

The directors say this year promises to be both exciting and rewarding and should see the group make further substantial progress.

Along with its preliminary results Mountleigh says it has contracted to acquire for £6.5m, 42-70 Kensington High Street, which comprises a Woolworths store, five retail units, approximately 32,000 sq ft of offices and 45 flats.

The group plans to refurbish the retail and office elements and anticipates that when completed and fully let the investment value of the property will exceed £14m.

Mountleigh has also purchased 164 acres of industrial land at Dagenham, between the M25 and M11, with a rental income in excess of £250,000 per annum. It has already agreed land sales of some 60 acres, the total proceeds from which will exceed the original purchase prices and leave the rental income virtually intact.

The group now proposes, subject to planning, to carry out a composite redevelopment on the balance of the site which, it believes, "will lead to the regeneration of this part of Essex" and create several hundred jobs.

Total income for 1984-85 was made up as to sales £16.26m (£3.39m) and rental income £4.11m (£3.21m) — Mountleigh, based at Pudsey, West Yorkshire, is engaged in property investment and development.

The Mountleigh Homes (Scotland) division is well established and will this year build between 150 and 200 units. Sites are in areas where the supply of private housing is very limited and already almost half of this year's build programme is reserved.

This division is expected to make a substantial contribution to group profits. It has made an excellent start to the current year and the directors are confident that the progress achieved during 1984-85 will be continued.

Group interest charges for the year under review rose from £1.2m to £2.84m and tax from £16,000 to £53,000.

At year-end assets per 25p ordinary share totalled 358.93p (314.51p) or 350.33p (314.51p) fully diluted for conversion of the loan stock. Shareholders' funds stood at £25m (£22m).

The directors point out that the group's capital base has been considerably strengthened by the raising earlier this year of £7m by way of a 9¾ per cent convertible loan stock and the arrangement of a new £10m syndicated medium term loan.

Pentland sales ahead first half

Mr Stephen Rubin, chairman of Pentland Industries, told shareholders at the annual meeting that trading for the first six months had been at a substantially higher level than last year.

At the EGM, shareholders passed a resolution approving the public offering in the U.S. of shares in its sports shoe distributor, Reebok, and giving the directors a general authority to agree the final terms and implement arrangements.

The offering is expected to begin on July 30 and close on August 6 1985.

COMPANY NEWS IN BRIEF

RUGBY PORTLAND Cement's offer for John Carr (Doncaster) has been accepted by holders of 54.96m of the ordinary shares. Together with the 1.75m shares held before the offer and the 8.48m bought since, Rugby Portland has acquired or received acceptances for 95.2 per cent of the issued ordinary capital and the offer has been declared unconditional.

EXETER BUILDING and Construction is in discussion with Baileys Roofing—a private company trading from Bristol—which is expected to result in the latter joining the EBC group. Baileys' trading would continue normally thereafter and continued employment of existing staff is expected.

BRICOMIN Investments has increased its holding in J. N. Nichols (Vimto) to 6.47m ordinary shares (35.06 per cent) following conversion of all the £1.09m 10 per cent unsecured loan stock 1981-90. Bricomin is a subsidiary of British & Commonwealth Shipping.

MARLBOROUGH Property Holdings, through its subsidiary Chown Investments, has conditionally agreed to acquire a freehold interest in the Solent Industrial Estate for £2.79m. This will be met by £285,000 cash and the issue of 4.8m shares which Samuel Montagu will arrange to have placed at 52p each. The property is situated at Hedge End, some five miles east of Southampton. It is about 7.9 acres and comprises 28 industrial and warehouse units producing a net income of some £338,000 from mainly 21-year leases expiring between 1986 and 1993. The property has been independently professionally valued at around £2.9m.

LEWMAR, a Havant, Hampshire, company making winches, rigging, and other equipment for yachts, is being floated on the USM later this month with a market capitalisation of £25m to £30m, by means of an offer for sale by brokers Phillips and Drew.

CONSOLIDATED GOLD FIELDS has sold Bell and Sons, comprising the agricultural division of Bath and Portland Group, to Farmos Farmline for a total consideration of £7.5m. The sale was in line with Gold Fields previously stated intention to divest itself of this division.

SECURITY EXPRESS'S acquisition by Mayne Nickless (UK) is not to be referred to the Monopolies Commission, the Trade Secretary, Mr Norman Tebbitt,

STORMGARD'S contested offer for Selincourt has been accepted by 67.2 per cent of the ordinary shares, bringing Stormgard's holding up to 61.6 per cent. The preference offer has been taken in respect of 51.1 per cent and both offers remain open. The ordinary, however, still has conditions attached. The alternative cash offer has closed.

YEARLING BONDS interest rate this week is 12 per cent, unchanged from last week, and compares with 10⅞ per cent a year ago. The bonds are issued at par and are redeemable on July 9 1986. A full list of issues will be published in tomorrow's edition.

DELMAR GROUP of rubber and plastic processors has lifted sales by 24 per cent to £2.97m and profits by 49 per cent, from £247,000 to £371,000, in the year ended March 31 1985. Earnings ahead 69 per cent to 3.92p and dividend to be 1.85p net per share (1.68p). Current year started well. This USM group continues to introduce new products and processes aimed at complementary parts of the market.

NETI TECHNOLOGIES, listed in Vancouver, has arranged a private placement of 200,000 common shares with a group of British pension funds at C$6.75 per share. The institutions will be granted the option to purchase an additional 200,000 shares at C$7 per share exercisable within 30 days.

TALBEX had received acceptances in respect of 5.87m Yorkgreen ordinary shares (52.91 per cent) at July 1, bringing the total acquired by Talbex to 6.18m (55.61 per cent). The offer is now unconditional and will remain open for acceptances until further notice.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Norfolk Capital.

Finals: Birmingham Mint, Equity Consort Investment Trust, Hollas, Sarasota Technology, R. W. Toothill, Wedgwood.

FUTURE DATES

Interims—

Anglo-American Securities	July 11
Amoil	July 12
Kennedy Brookes	July 8

Finals—

Intasun Leisure	July 9
Memcon International	July 8
Mercantile House	July 31

BASE LENDING RATES

A.B.N. Bank	12½%	Heritable & Gen. Trust	12½%
Allied Irish Bank	12½%	■ Hill Samuel	§12½%
American Express Bk.	12½%	C. Hoare & Co.	12½%
Henry Ansbacher	12½%	Hongkong & Shanghai	12½%
Amro Bank	12½%	Johnson Matthey Bkrs.	12½%
Associates Cap. Corp.	13 %	Knowsley & Co. Ltd.	13 %
Banco de Bilbao	12½%	Lloyds Bank	12½%
Bank Hapoalim	12½%	Edward Manson & Co.	13½%
BCCI	12½%	Meghraj & Sons Ltd.	12½%
Bank of Ireland	12½%	Midland Bank	12½%
Bank of Cyprus	12½%	■ Morgan Grenfell	12½%
Bank of India	12½%	Mount-Credit Corp. Ltd.	12½%
Bank of Scotland	12½%	National Bk. of Kuwait	12½%
Banque Belge Ltd.	12½%	National Girobank	12½%
Barclays Bank	12½%	National Westminster	12½%
Beneficial Trust Ltd.	13½%	Northern Bank Ltd.	12½%
Brit. Bank of Mid. East	12½%	Norwich Gen. Trust	12½%
■ Brown Shipley	12½%	People's Trust	13½%
CL Bank Nederland	12½%	PK Finans Intl. (UK)	13 %
Canada Permanent	12½%	Provincial Trust Ltd.	13½%
Cayzer Ltd.	12½%	R. Raphael & Sons	12½%
Cedar Holdings	13 %	Roxburghe Guarantee	13 %
■ Charterhouse Japhet	12½%	Royal Bank of Scotland	12½%
Choulartons**		Royal Trust Co. Canada	12½%
Citibank NA	12½%	■ J. Henry Schroder Wagg	12½%
City Merchants Bank	12½%	Standard Chartered	‖12½%
Citibank Savings	¶12½%	TCB	12½%
Clydesdale Bank	12½%	Trustee Savings Bank	12½%
C. E. Coates & Co. Ltd.	13 %	United Bank of Kuwait	12½%
Comm. Bk. N. East	13 %	United Mizrahi Bank	12½%
Consolidated Credits	12½%	Westpac Banking Corp.	12½%
Co-operative Bank	*12½%	Whiteaway Laidlaw	13 %
The Cyprus Popular Bk.	12½%	Williams & Glyn's	12½%
Duncan Lawrie	12½%	Yorkshire Bank	12½%
Dunbar & Co. Ltd.	12½%		
E. T. Trust	13 %		
Exeter Trust Ltd.	13 %		
First Nat. Fin. Corp.	13½%		
First Nat. Secs. Ltd.	13½%		
■ Robert Fleming & Co.	12½%		
Robert Fraser & Ptns.	13½%		
Grindlays Bank	‡12½%		
■ Guinness Mahon	12½%		
■ Hambros Bank	12½%		

■ Members of the Accepting Houses Committee.
* 7 day deposits 9½%, 1 month 10¼%. Top Tier—£2,500+ at 3 monthly notice 10½%. At call when £10,000+ remains deposited.
‡ Call deposits £1,000 and over 9½% gross.
‖ 21-day deposits over £1,000 10½%.
¶ Mortgage base rate.
** See Provincial Trust Ltd.
§ Demand deposits 9¼%.

CORPORATE FINANCE

The Survey on Corporate Finance, that was due to be published today, will now appear in the edition of Wednesday 10 July 1985

UK COMPANY NEWS

Phoenix Timber dispute may continue in courts

BY DAVID GOODHART

THE ARGUMENT over control of Phoenix Timber could spill over into the courts following yesterday's announcement by Mr Dennis Cook, the chairman, that voting at Monday's extraordinary general meeting had given a 53 per cent to 47 per cent victory to the board.

A group of dissidents, led by a board member Mr Michael Hermann, had been seeking to appoint three non-executive directors to the board.

The closeness of the vote, and a number of legal questions raised about some of the proxy votes, led to the announcement of the result being delayed until yesterday morning.

On a turnout of just less than 90 per cent, 2,995,478 votes, the difference between the two sides on the four resolutions was never greater than 159,428 votes.

During, and since, the count, objections have been raised by the dissidents on the validity of about 300,000 of the votes. They said that counsel advised them that the proxy cards were invalid. Mr Cook did not accept that.

Mr David Edelman, one of the three proposed non-executive directors, said yesterday that they had decided to take the case to the High Court as soon as possible and hoped it would be heard within 14 days.

Mr Cook said he was amazed they were taking this course in the light of the advice he had received from counsel.

It appears that the objection to the proxy cards was based on an interpretation of the company's articles of association. The dissidents allege that some institutional representatives voted without proper authorisation. The board says that the way in which they cast their votes is traditional. If it was successfully challenged most companies would have to change their existing practices.

An exceptionaly high turnout of small investors clinched the result for the existing board, which won 47.5 per cent of votes cast to the dissidents 42.5 per cent.

British Vita expands in Europe

BY ANDREW ARENDS

British Vita, the foam fabrics and fibres company, has purchased the foam interests of the Belgian chemical group, Solvay, for £6.4m in cash.

The deal, which is to be funded mainly through additional Deutschemark bank borrowings as well as the company's own cash resources, concerns foam manufacturing plants in the Netherlands and West Germany, and a licensing company in Switzerland.

According to the latest financial accounts for the year ended December 1984, these interests reported pre-tax profits of £1.15m on turnover of £33m, with a net book value of £7.1m.

However, in March of this year, when British Vita first announced it would purchase Solvay's foam interests, the price then quoted was £9m—a figure nearly 30 per cent higher than the price actually paid.

Mr William Holt, British Vita company secretary, said yesterday that the lower price was due to the fact than the German factory was now being acquired with a £1.1m mortgage attached to it. He also said that appreciation in the value of sterling against the Deutschemark and the Guilder since March had also reduced the value of the deal in sterling terms.

British Vita said yesterday that the deal would give the group a strategic presence throughout northern Europe and within its major product areas.

On completion British Vita paid £3.95m of the purchase price to the vendors, with the balance payable in January 1986.

Pauls buys Felton division for £19m

Pauls, the animal feed and malt group bought by Harrisons & Crosfield for £116m last March, has gone ahead with the purchase of the flavours and fragrances business of Felton International Inc for $25m (£19m).

Pauls announced in February that it had acquired an option to buy the Felton division but said it would not go ahead with the deal until the bid battle was over.

Harrisons said yesterday that Pauls had now exercised its option after Felton's vendors had discharged liabilities amounting to $4m. The Felton operations have a turnover of $40m in North America, France, Mexico, the UK, Hong Kong and Italy.

Micro Focus warns of deficit in first half

BY STEFAN WAGSTYL

Micro Focus, the software house whose shares have plummeted on the stock exchange in the wake of the announcement of reduced profits for 1984, has warned that it might make a loss in the first half of 1985.

Writing in the annual report, chairman Mr Brian Reynolds says: "There is some risk of a loss being recorded in the first half of 1985. The actions we have taken in the first half year should however have a beneficial effect in the second half of 1985."

Last month the company announced a 20 per cent cut in the workforce, shedding 60 jobs, to reduce costs.

The report and account also discloses that the company's executive directors waived any renumeration for 1984. In May the group announced pre-tax profits of £700,00 for the 60 weeks to the end of January, compared with £2.8m in the previous year.

The group said its expansion, particularly in the U.S., coincided with difficult trading conditions, and it extended greater credit to customers. The report shows net trade debtors of £9.3m, against £4.2m.

Micro Focus advanced loans to two companies — £443,000 ($500,000) to The Santa Cruz Operation Inc, and after the balance sheet date $365,000 to Phaser Systems Inc, a U.S. software company.

The shares closed last night at 195p, up 20p, compared with a 1985 high of 970p.

Regentcrest may become investment vehicle

REGENTCREST, a small Belfast-based property company, could become an investment vehicle for the private property developers, twins Mr Roy and Mr Don Richardson.

The Regentcrest board announced yesterday it had accepted an offer of 27.5p cash for each ordinary share, valuing the company at £4.24m.

On Monday Dudley, owned by the Richardsons, bought 3.54m ordinary shares (22.98 per cent) at 27.5p, conditional upon Regentcrest's acceptance of the wider offer.

The Richardson's, who have concentrated their development activities in the West Midlands, have said they want to keep the share quote. They plan to sell up to 23 per cent of the shares—a little less than 4m—to the public once they have gained control. One million shares (about 6 per cent) will go to Rhone Trust, a company controlled by Mr Peter Scott and Mr Jack Cohen, directors of Regentcrest. A further 1m will go to Mr Chris Charlton, an accountant, who will become managing director of the new company. The remainder will be held jointly by the Richardsons

The directors of Regentcrest together own 36 per cent of the shares and have given irrevocable undertakings to accept in respect of those shares.

The Richardsons said Regentcrest would be expanded by the introduction of new property investment and development business by the new shareholders. Mr Roy Richardson said that the financing of the deal had come out of reserves.

Regentcrest made a half year profit of £114,702 to October last year, following a los of £40,928 in the same period the previous year.

Savoy Hotel trustee retires

Sir Hugh Wontner, former chairman of Savoy Hotel, has retired as trustee of the trusts which hold the company's vital B shares.

The Savoy said yesterday that the shareholdings had not moved outside the trusts, and that someone else would take Sir Hugh's place as trustee.

"No shares have changed hands or been disposed of," the Savoy said last night. The trust's control about 40 per cent of B shares, which hold the key to votes in the company.

CONTRACTS

£5m Davy machine shears irradiated fuel rods

DAVY McKEE NUCLEAR, Stockton-on-Tees, a Davy Corporation company, has been awarded a contract, worth over £5m by British Nuclear Fuels for the design, supply and erection of shear cave machines, including control systems and associated equipment, for the head end of BNFL's Thorp project at Sellafield. The contract is scheduled for completion in the second half of 1988. The machine will receive irradiated fuel rods from the head end pond and cut them to suitable lengths for dissolution prior to reprocessing in which uranium, plutonium and fission products will be separated. It will be operated within a concrete cave and the contract includes the design and installation of the control system required for remote operation. Design standards are for minimum maintenance over the life of the plant.

*

The Guinness Trust Housing Association has awarded two contracts together worth nearly £1m to CORRALL CONSTRUCTION of Wallington, Surrey. A five storey block of 40 flats at Stamford Hill, N16, will be converted to provide 38 new units with extensive internal and external modernisation, repairs and rebuilding. Work on the contract, worth £812,000, will include the installation of two lifts and will be due for completion in June, 1986. At Holbein House, London, SW1, the contract is worth £122,894. It includes demolition of two blocks and erection of an estate office and store with adjoining covered refuse bin area. The contract is due for completion in December.

*

Dundee unit furniture manufacturer TVJ, Claverhouse, has won an order worth over £500,000 to supply fitted furniture for the accommodation platform of Marathon Oil's Brae "B" Field. Work has begun and is scheduled for completion by February of next year.

*

IMI COMPUTING has won an order from Merseyside-based pharmaceuticals firm E. R. Squibb and Sons to develop an on-line database system to streamline its export department. The contract, worth over £100,000, will be undertaken by development staff based at IMI Computing's Birmingham office, accessing the Squibb mainframe at Moreton through IMI Computing's UK-wide SNA network. Completion is scheduled for the middle of 1986.

*

WALTER LAWRENCE & SON has commenced work on the £1.25m redevelopment of 7 Ludgate Broadway, EC4, on behalf of Guardian Royal Exchange Pensions Management. Work has begun with demolition of the existing building and stripping of the basement. Walter Lawrence will lay bored pile foundations and construct the reinforced concrete frame of the building. The five-storey office development will have brick external walls with stone feature bands, and slate and metal-clad roofs set on a steel and timber structure. Work will be carried out over a 79-week period with completion due in September 1985. The contract period includes a 13-week break during which archaeological excavations will be carried out on the site, which is situated in one of the oldest areas of the City.

*

Interox Chemicals, a company owned equally by Laporte and Solvay & Cie, has awarded the principal technical and management services contract for a new 50,000 tonnes per annum basic hydrogen peroxide production unit to MATTHEW HALL NORCAIN. The unit, which is being built at Warrington, will cost £30m and replaces one of similar capacity destroyed by fire in September 1984. The project is being managed by Laporte's Engineering Services Group on behalf of Interox. Construction is on schedule for completion by mid-1986.

*

A £3m contract to develop the Republic of Ireland's first planetarium at Dun Laoghaire, Eire, has been awarded to TANDATA IRELAND, Irish subsidiary of the Jarard Group of Ilford. The planetarium will incorporate a civic centre and a community hall with seating for up to 500 people, as well as a restaurant and an exhibition centre.

*

FARREL BRIDGE, Rochdale, a unit of the U.S.-based Emhart Corporation, has won orders worth £2.5m to supply three lines of mixer compounding equipment for rubber and plastics processing to the Chinese Peoples Republic. Each line consists of an F270 Banbury Mixer, 15 in x 18in Extruder, 16 in x 38 in Sheeter and Festoon Cooling Line. The contracts include the supply of spare parts and supervision of erection.

*

Elixir Industries of Douglas, Georgia, U.S., has ordered an extrusion press worth over £500,000 from FIELDING & PLATT, Gloucester.

*

DAF TRUCKS, Holland, has won a further order from international aid organisation World Vision for the supply of vehicles for famine relief work in Ethiopia. Following recent delivery of 24 vehicles, the new order is worth 10m guilders (£2.5m) and involves 60 trucks.

*

Contracts worth over £2m have been awarded to WELDWORK CARGO SYSTEMS, Hounslow, by British Airways for the design and supply of air freight container handling systems for its cargo warehouses at London Heathrow and Manchester Airports.

*

The Home Office has awarded a £3.36m contract to R. M. DOUGLAS CONSTRUCTION for building a gate complex at H.M. Prison, Parkhurst, Isle of Wight. With a contract period of two years, works include a new main entry and vehicular entrance, a visiting area, reception and discharge area, all with amenities, together with administration offices, emergency control area and plant rooms. Work will start in August.

Company Notices

GAZ DE FRANCE

ECU 50,000,000 Floating Rate Notes due 1989
Unconditionally guaranteed by THE REPUBLIC OF FRANCE

In accordance with the terms and conditions of the Notes, notice is hereby given that for the Interest Period from June 28, 1985 to September 30, 1985 the Notes will carry an Interest Rate of 9 ¾ % per annum.

The Interest payable on the relevant Interest Payment Date, September 30, 1985 against Coupon n°12 will be ECU 25.46 per Note.

Agent Bank
KREDIETBANK
S.A. LUXEMBOURGEOISE

OLD COURT DOLLAR COMMODITY TRUST (CDRs)

The undersigned announces that as from 11th July 1985 at Kas-Associatie N.V., Spuistraat 172, Amsterdam and at Pierson, Heldring & Pierson N.V., Herengracht 214, Amsterdam, div.cp. no. 8 of the CDRs Old Court Dollar Commodity Trust will be payable with Dfls. 9.04 per CDR, repr. 10 units and with Dfls. 90.40 per CDR, repr. 100 units.
(div. per rec-date 20.4.1985: US$—, 20 per unit)
This dividend distribution is not subject to tax withholding at source.
Amsterdam, 27th June 1985
AMSTERDAM DEPOSITARY COMPANY N.V.

NOTICE TO HOLDERS OF REED (NEDERLAND) N.V.
16¾% Guaranteed Bonds, 1989

Copies of the Annual Reports of Reed (Nederland) N.V. and of Reed International P.L.C. can be obtained on request from:
The Secretary
Reed International P.L.C.
Reed House, 83 Piccadilly
London W1A 1EJ, England

Granville & Co. Limited

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Over-the-Counter Market

High	Low	Company	Price	Change	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
146	122	Ass. Brit. Ind. Ord.	136	—	6.6	4.8	7.5	9.0
151	135	Ass. Brit. Ind. CULS	140	—	10.0	7.1	—	—
77	45	Airsprung Group	45xd	—	6.4	14.2	7.5	8.8
42	26	Armitage and Rhodes	37	−1	2.9	7.8	4.6	7.7
158	108	Bardon Hill	157xd	—	4.0	2.5	20.7	20.7
64	42	Bray Technologies	64	—	3.8	6.1	7.8	9.0
201	161	CCL Ordinary	162	—	12.0	7.4	4.0	3.8
152	105	CCL 11pc Conv. Pref.	105	—	15.7	14.9	—	—
129	10	Carborundum Ord.	128	−1	0.9	3.8	5.3	8.9
88	83	Carborundum 7.5pc Pf.	84	—	10.7	12.7	—	—
73	46	Deborah Services	46	—	6.5	14.1	4.4	7.1
425	192	Frank Horsell	425	+87	1.4	0.3	10.9	14.0
370	170	Frank Horsell Pr Ord 87	370	+100	11.9	3.2	9.5	12.2
32	25	Frederick Parker	27	−1	—	—	—	—
64	33	George Blair	64	+1	—	—	4.3	8.8
50	20	Ind. Precision Castings	20	—	2.7	13.8	5.5	5.8
218	177	Isis Group	180	+1	15.0	8.3	7.1	12.8
124	101	Jackson Group	107	−1	5.5	5.1	7.3	7.3
285	218	James Burrough	230	—	15.0	8.5	7.3	7.3
93	63	James Burrough 9pcPf.	80	—	12.0	13.5	—	—
95	71	John Howard and Co.	92	—	6.0	5.4	7.3	11.5
226	100	Linguaphone Ord.	218	—	—	—	8.0	8.4
100	92	Linguaphone 10.5pc Pf.	92	—	15.0	16.3	—	—
650	300	Minihouse Holding NV	610	—	6.8	1.1	26.8	26.3
120	31	Robert Jenkins	68	—	5.0	7.4	—	—
80	28	Scruttons "A"	33	—	—	—	—	8.5
92	61	Tordey and Carlisle	75	—	5.0	6.7	3.8	8.0
444	325	Trevian Holdings	325	—	4.3	1.3	18.5	18.2
30	17	Unilock Holdings	30	—	1.3	4.3	14.6	21.0
104	81	Walter Alexander	100	—	7.5	7.5	7.5	10.6
247	216	W. S. Yeates	221	—	17.4	7.9	6.3	10.8

Prices and details of services now available on Prestel, page 48146

FT COMMERCIAL LAW REPORTS

Separate consignments not 'successive'

ARCTIC ELECTRONICS CO (UK) LTD v McGREGOR SEA & AIR SERVICES LTD
Queen's Bench Division (Commercial Court): Mr Justice Hobhouse: June 25 1985

CARRIERS OF goods in separate lots under separate consignment notes are governed by separate contracts, and are not successive carriers under a single contract, though employed by the same employer; and accordingly, the presence of one carrier within the jurisdiction will not justify service on another out of the jurisdiction in respect of the employer's claim to be indemnified for liability for damaged goods.

Mr Justice Hobhouse so held when giving judgment for Transport International A Lies of Luxembourg ("Lies") on its interlocutory summons to set aside a fourth party notice served on it in Luxembourg by Cargolux Aerolines International SA, also of Luxembourg. Cargolux was joined as third party by defendant, McGregor Sea & Air Services Ltd, in an action brought by Arctic Electronics Co (UK) Ltd.

Transport of goods abroad by road is regulated by the Convention for the International Carriage of Goods by Road ("CMR"). Effect is given to CMR in the UK by the Carriage of Goods by Road Act 1956.

Chapter VI of CMR, as set out in the Schedule to the Act, is headed "Provisions relating to successive carriers."

Article 34.2 of CMR provides: "If carriage governed by a single contract is performed by successive road carriers each of them shall be responsible for the performance of the whole operation . . . under the terms of the consignment note . . ."

Article 39 provides: "A carrier wishing to take proceedings to enforce his right of recovery may make his claim before the competent court or tribunal of the country in which one of the carriers concerned is ordinarily resident . . .".

Order 11 rule 1(i) of the Rules of the Supreme Court (RSC) provides that leave may be granted to serve proceedings out of the jurisdiction "if the action begun by the writ is brought under . . . the Carriage of Goods by Road Act 1965 . . ."

* * *

HIS LORDSHIP said that in 1981 Arctic bought 200 video game machines made in Taiwan. It employed McGregor to arrange carriage of the goods from Taipei to Edinburgh.

McGregor claimed to have employed Cargolux to carry them from Taipei to London. Cargolux disputed that. It said it was only employed as carrier from Taipei to Luxembourg, and was to act as forwarding agent for a road leg from Luxembourg to London.

The goods, in 1,304 cartons were shipped from Taipei under a single air waybill issued by Cargolux, giving the destination London, but saying "to Lux" by first carrier and "to Lon by truck."

After their arrival at Luxembourg airport the goods were split into three lots. Cargolux employed Lies to carry 476 cartons from Luxembourg to London, and a CMR consignment note was issued. It employed another Luxembourg carrier, Sotrai, to carry 490 cartons to London under another CMR consignment note, and an English carrier, Spa Trans, to carry 486 cartons to London under a third CMR consignment note.

On delivery of the three consignments at London it was alleged that some cartons from each were damaged.

Arctic sued McGregor in respect of that damage. McGregor brought in Cargolux as third party for an indemnity, and Cargolux sought to bring in Spa, Sotrai and Lies as fourth parties.

Spa was served in the jurisdiction. Sotrai had not objected to the jurisdiction and had in fact joined another English company as fifth party.

Lies contested the jurisdiction. Cargolux said that Lies was a "successive" road carrier within the meaning of Chapter VI, articles 34 to 40, of CMR. It claimed that under article 37 of CMR it was entitled to recover from Lies whatever it might have to pay to McGregor or Arctic in respect of damage to the cartons carried by Lies.

Cargolux sought to justify leave to serve Lies out of the jurisdiction under RSC Order 11 rule 1(g), on the basis that the contract was broken within the jurisdiction, in that the goods were to be delivered undamaged at London.

Alternatively, it sought to justify leave under paragraph (i) which permitted the grant of leave if the action was brought under the 1965 Act.

In connection with that paragraph, Cargolux relied on CMR article 39.2, which provided that a carrier might proceed to enforce his right of recovery in the country in which one of the "carriers concerned" resided.

In *Cummins [1981] 1 WLR 1363* it was held that "carriers concerned" did not include the carrier making the claim, but only the successive carriers against whom the claim for contribution or indemnity was made.

Lies was resident and had its principal place of business in Luxembourg, so that article 39 did not appear to help Cargolux. However, Cargolux said that "carriers concerned" included not only Lies, but also Sotrai and Spa, and that as Spa was resident in England, proceedings in England were authorised by article 38.2.

That contention could not be supported. Cargolux said it employed Lies under a consignment note to carry 476 cartons. None of the other fourth parties was successive carrier for that consignment, and Lies was not successive carrier for the consignment carried by them.

Cargolux argued that all three Luxembourg to London consignments were governed by a "single contract" within article 34, namely the contract between Cargolux and McGregor.

That was not a proper reading of article 34. There were separate contracts with each of the fourth parties. There was no concept of splitting a consignment note. Article 34 made it clear that "successive carriers" operated under a single consignment note.

In the present case one consignment note was issued in respect of the 476 cartons. Different consignment notes were issued in respect of the 486 and 490 cartons. It could not be said that within CMR Lies, Sotrai and Spa were successive carriers.

If Cargolux could not justify leave under article 39.2 and RSC Order 11 rule 1(i), could it nevertheless do so under Order 11 rule 1(g)?

The Rules of the Supreme Court took effect subject to any relevant statutory provision. CMR was part of an Act of Parliament which gave it the force of law in the UK. The Act also excluded other rights to contribution (see section 5). The Act and CMR must be treated as paramount. Provisions such as the present were intended to be a self-contained code within which a plaintiff must found his jurisdiction (See *Rothmans v Saudi Airline [1981] QB 368, 385*).

Lies argued that article 39.2 should be construed as providing for a compulsory and exclusive jurisdiction.

Article 31 [which specified the courts in which a plaintiff's action might be brought] did so provide because it included the words "and in no other courts or tribunals." In *Cummins* Lord Justice Brandon said obiter that article 39.2 should be read in the same way. Lord Justice Eveleigh, also *obiter*, preferred the opposite view.

His Lordship preferred Lord Justice Eveleigh's view. Article 39.2 was drafted in different terms from article 31.1. In article 39.2 the natural meaning should be given to "may."

Also, article 38.1 contemplated that the successive carrier might voluntarily join in a Chapter V action [between goods-owner and carrier]. Such an action might or might not be in a jurisdiction authorised by article 39.2. Therefore, to give article 39.2 a compulsory and exclusive effect would not be consistent with the proceedings contemplated and authorised by article 39.1.

The correct interpretation of CMR was that it authorised the jurisdiction in article 39.2. The result was that when Order 11 rule 1(i) was applied, article 39.2 must be given effect to as it was in *Cummins*, and must be treated as defining the scope of the extra-territorial jurisdiction permitted to a CMR state. Article 39.3 led to the same conclusion.

It followed that a claimant could not rely on Order 11 rule 1(g) in respect of a CMR claim. He must make out his case for extra-territorial jurisdiction under paragraph (i) and CMR.

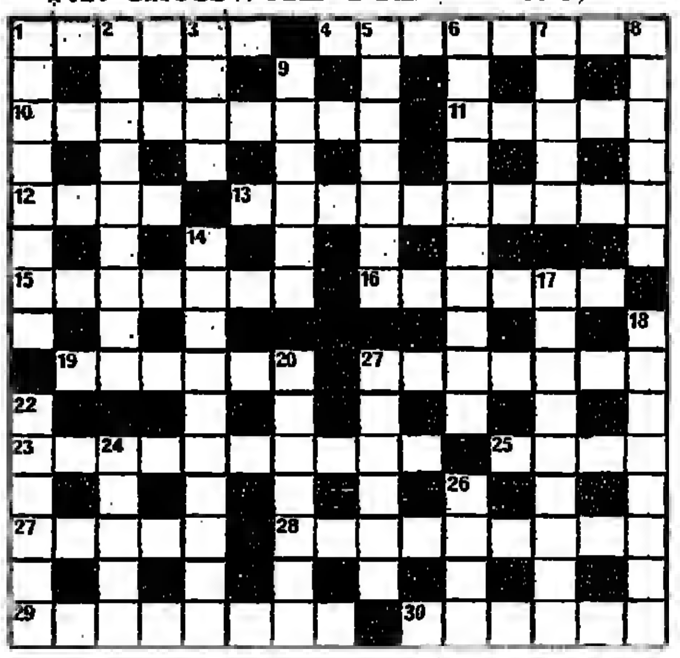
Leave must therefore be set aside and all proceedings under the fourth party notice against Lies likewise to be set aside.

Even if that were wrong, it was not a suitable case for leave. Both parties were resident in Luxembourg and there was no sufficient reason why any litigation between them should not take place there.

For Cargolux: A. Allison (Beaumont).
For Lies: Elizabeth Birch (Kennedy's).

By Rachel Davies
Barrister

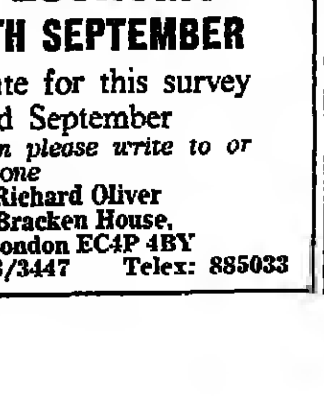
F.T. CROSSWORD PUZZLE No. 5,759



ACROSS
1 Get rescue organised (6)
4 Drop what may have a bad effect on the viewer (8)
10 Enticing a dog in to rest (7, 2)
11 Low point for a beast (5)
12 Benefit from a drink (4)
13 Start of play (5, 5)
15 Come to a sensible conclusion? (7)
16 Make certain the fool has running water (6)
19 Smart deal! (6)
21 The ship's pilot getting about a thousand (7)
23 Run to earth in the South-east (10)
25 Deplores foreign ways (4)
27 Gives satisfaction, being in accord (5)
28 No silence could be taken as disrespect (9)
29 Not a good achiever (8)
30 Slip back into the gun room (6)

DOWN
1 People engaged in trade may well be nameless (8)
2 Prize housing subjected to stress is praised (7, 2)
3 Getting service in the fall (4)
5 Dicky is a name for forgetting! (7)
6 Conduct a large number—official (10)
7 A wish to be in company (5)
8 Entertains doctors (6)
9 Some will sign it eagerly and make light of it (6)
14 Reckon a man would accept a puppet (10)
17 The odd athlete is a smuggler (3-6)
18 View? Some hope! (8)
20 The movement away from the land (3-4)
21 A quarter lock—emphasise that (6)
22 Husband's difficulty (6)
24 Her backing makes one keen (5)
26 Leaf-damaging insect (4)

Solution to Puzzle No. 5,758



APPOINTMENTS

Lloyds Bank Tokyo HQ

LLOYDS BANK is to establish in Tokyo a headquarters for international division operations in Asia. It will be headed by **Mr Michael Riding**, currently principal manager of the Far East division in London, who is appointed general manager. His deputy will be **Mr Michael Green**, currently regional manager, South East Asia. The new Asian headquarters will become operational in October. The existing branches in Tokyo and Osaka will continue to carry out Japanese commercial banking operations. The international division is one of five operating divisions of the new structure of Lloyds Bank, which came into effect on July 1 in advance of the formal merger of Lloyds Bank International with Lloyds Bank plc.

*

MICROVITEC, Bradford, has appointed **Mr David Burnet** as a non-executive director. He is managing director of Francis Industries.

*

Mr Clive Brooks has been appointed group financial controller of BIRMID QUALCAST.

*

At the SOLICITORS' LAW STATIONERY SOCIETY **Sir Edward Singleton** has stepped down as director and non-executive chairman. **Sir John Swanborough** has resigned as group managing director to pursue other business interests. **Lord Silkin of Dulwich**, former Attorney General, has been elected non-executive chairman and **Mr Robert Maxwell** as non-executive director. **Mr Kevin Maxwell**, deputy publisher of Pergamon Press was appointed group managing director.

*

PEAT MARWICK has appointed **Mr John Calvert** as head of the management services department for the northwest region.

*

Mr Antnny R. Kench has been appointed UK managing director for the Scandinavian computer consultancy company ENATOR. He was previously UK managing director for Geisco.

*

ALEXANDER HOLDINGS has appointed **Mr Martin Acland** as a director. A former director of Mercantile Credit and recently retired, he takes up his new appointment on July 15.

*

Mr Edward Sbdbet has been appointed a non-executive director of HAMPTON. **Mr. L. E. T. Hue Williams** has resigned as a non-executive director.

*

Following setting up of the TRANSATLANTIC CAPITAL BIO-SCIENCES FUND the management board appointments comprise as chairman **Sir Anthony Burney**; as investment directors **Mr Gordon D. Dean**, **Mr Paul F. Frampton**, **Mr David O. May** and **Mr Fred H. Offer**; and as non-executive directors **Professor Timothy Chard** (professor of reproductive physiology as St Bartholomew's Hospital), **Mr J. A. C. Hill** (a partner of Shelton Cobb solicitors), **Mr Andrew C. Hugh Smith** (chairman of Capel-Cure Myers and a director of Grindlays Bank), **Dr Peter Scott** (European associate of Johnson & Johnson Development Corporation) and **Dr Paul M. Whitney** (managing director of CIN Industrial Investments, venture and development capital arm of the National Coal Board Pension Funds).

*

Mr Eardley E. C. Berkeley has been appointed chief operations director of WORDPLEX INFORMATION SYSTEMS. He will continue as finance director and company secretary. **Mr Michael Arnold** joins the board as group marketing director. He was previously responsible for international operations.

*

Mr Paul Orchard-Lisle, deputy senior partner in Healey and Baker, has been elected president of the ROYAL INSTITUTION OF CHARTERED SURVEYORS.

*

I. P. SHARP ASSOCIATES has promoted **Mr Bob Hayim** to director international banking group, replacing **Mr Lee Bettes** who is now general manager U.S.

*

Mr John Dunbar has been appointed a non-executive director of BETEC. He is chief executive of BSC Industry and a non-executive director of Wordplex Information Systems.

*

Mr Iain Lyne has been appointed to the board of MURRAY JOHNSTONE.

*

SCHRODER SECURITIES has made the following board appointments: **Mr Rupert Caldecott** to Schroder Securities UK; and **Mr Kevin Brady** to Schroder Securities Hong Kong. Helbert Wagg and Co, Anderson Bryce Villiers, the 29.9 per cent stockbroking associate of Schroders has appointed **Mr Clive Fleckney** as a director and head of the UK sales team. He previously held senior positions with Phillips and Drew and Rowe and Pitman.

*

Sir David Steel and **Mr Andrew Rutherford** have been appointed to the board of KLEINWORT, BENSON, LONSDALE, holding company of the Kleinwort Benson merchant banking group. **Sir Eric Drake** has retired from the board. Sir David is chairman of the Wellcome Trust and a former chairman of BP. Until recently, he was a director of the Bank of England. Mr Rutherford is senior partner of stockbrokers Grieveson Grant.

*

CAPITAL VALUE BROKERS has appointed **Mr Martin P. Drew** to the board. He joins from Kleinwort Benson where he was principal trader in the leasing division.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

Pearl Trust Managers Ltd. (a)(g)
252, High Holborn, WC1V 1EB 01-405 8441

Pearl Growth Fd	60 6	64 5	+0 9	3 51
Accum Units	89 6	95 3	+1 1	3 51
Pearl Inc	86 1	91 6	+1 4	5 10
Pearl Unit Tst	89 6	95 1	+1 5	4 38
(Accum Units)	151 4	161 1	+2 6	4 38

Perpetual Unit Trust Mngmt. (a)
48, Hart Street, Henley on Thames 0491 576868

Growth	179 1	192 3	+1 9	1 49
Income	134 1	143 6	+1 9	5 42
Worldwide Recovery	102 0	110 4	+1 1	2 10
American Growth	57 2	61 4	+0 3	0 77
Intl Emerging Cos	57 5	61 7	+0 7	0 77
Far East Growth Fd	46 9	50 3	+0.5	1.00

Prolific Unit Trusts
222, Bishopsgate, EC2 01-247 7544/7

Prolific Far East	102 6	109 9	+1.0	0.32
Prolific Extra Inc	59.8	64 3	+0.6	6.10
Prolific Gilt Cap	80 0	83 2		3 11
Prolific High Inc	122 4	131 7	+1.8	5.66
Prolific Intl	83.8	89 8	+0.8	1.87
Prolific N. Amer	119.1	127 6	+1.2	1.49
Prolific Spec. Sits	132 3	142.3	+0 7	1.85
Prolific Technology	103.6	111 0	+1 2	0.87

Providence Capitol Fd. Mgrs. Ltd.
30 Uxbridge Road, London, W12 8PG. 01-749 9111

Japan Trust	48.9	51 8	+0.1	0.00
Worldwide	48.1	50 9	+0 4	1 62
European Trust	48.1	50 9	+0 3	1 69
North American	52 9	56 0	+1.0	2.02
UK Equity	48.2	51 1	+0 6	1.99

Prudential Unit Trust Mngrs Ltd. (a) (b) (c)
51-69, Ilford Hill, Ilford, Essex, IG1 2DL 01-478 3377

Holborn Equity Tst	309 0	328.7	+4 2	7 76

[illegible]

TSB Unit Trusts (b) (c) (y)
PO Box 3, Keens Hse, Andover, Hants, SP10 1PG
0264 62188 Dealings to 0264 63432 3

TSB American	99 2	105 6	+1 4
Do Accum	102 1	108 7	+1 5
TSB Extra Income	81 7	89 1	+0 8
Do Accum	93 2	99 2	+0 9
TSB General	114 8	122 1	+2 1
Do Accum	181 0	194 6	+3 3
TSB Gilt & Fxd Int	46 7	48 7	
Do. Accum	56 4	58.8	−0 1
TSB Income	156 2	166.2	+2.4
Do Accum	235 6	250 7	+3 7
TSB Pacific	104 0	111 5	+0.9
Do Accum	107 4	114 3	+0 9
TSB International	229 7	244 4	+2.6
Do Accum	279.6	297 5	+3.2
Natural Resources	41 9	46 8	−0 6
Do Accum	44 4	47 3	−0 5
TSB Scrd. Opps.	44.0	47 7	+0.5
Do. Accum	48 1	51.2	+0.4

3i & Target Fund Mgrs Ltd
Target House, Gatehouse Road, Aylesbury, Bucks
Aylesbury (0296) 5941

Small Co's Fund	67 9	72 9	+0.7

Target Trust Mngrs. Ltd. (a)(g)
Target Hse, Gatehse. Rd. Aylesbury Bks (0296) 5941

American Eagle	67 9	72 6	+0.5
Australia	26 4	25.2	
Commodity	91 5	98 4	−0.5
Energy	41 6	44 5	+0.4
Equity	94 3	100 6	+2.0
European Spec. Sits	50.2	53 7	+0 7
Extra Income	87 9	94 0	+0.5
Financial	192.8	205 7	+3 4
Gilt Capital	214.5	224 6	+0.2
Gilt Income	101.0	105.8	+0.2
Gold Income	59 6	67 7	−0.5
Gold Acc	107.8	115.3	−0 7

[illegible]

INSURANCES

[illegible]

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg
World Fund NAV ... $11.25 ... +0.05 —

World Wide Growth Management
10a, Boulevard Royal, Luxembourg
Worldwide Gth Fd. ... $12.89 ... +0.05 —
Inv. Adv. M & G Inv. Mngt., Ltd, London

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg
Advanced Tech ... $9.19 ... +0.02 —
Dynamic Gwth Fd. ... $8.20 ... —

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
The Charities Deposit Fund 77 London Wall, London EC2N 1DB — 01-588 1815				
Deposit	12.2	—	—	3-Mth
The Money Market Trust 63 Qn Victoria St, EC4N 4ST — 01-236 0952				
Call Fnd	12.40	9.27	13.[illegible]	[illegible]
7-day Fnd	12.32	9.21	12.[illegible]	[illegible]
Oppenheimer Money Management Ltd 66 Cannon St, EC4N 6AE — 01-236 1425				
Call Fnd	12.35	9.25	13.07	6-Mth
7 day Fund	12.31	9.20	13.57	6-Mth
Dollar	7.00	—	—	6-Mth
Money Mngt Acct	12.13	9.00	12.59	3-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc 22 Charlotte Sq Edinburgh, EH2 4DF — 031-225 8484				
Full Service Chq Acc.	12.25	0.75	13.09	Qtr
Aitken Hume 30 City Road, EC1Y 2AY — 01-638 6070				
Treasury Acc.	12.375	9.25	13.07	Qtr
Mth Inc Chq.	12.25	9.16	12.90	Mth
Bank of Scotland 38 Threadneedle St, EC2P 2EH — 01-628 8060				
Cheque Acc.	11.50	0.54	12.77	Mth

Barclays Prime Account

[illegible]

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. § Guernsey gross. # Suspended. ◆ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◆ Yield column shows annualised rates of NAV increase.

OPTIONS
3-month call rates

Industrials	p		p
Allied-Lyons	36	Midland Bk	30
BAT	32	NEI	8
BOC Grp.	25	Nat West Bk	60
BSR	16	P & O Dfd	36
BTR	52	Plessey	17
Babcock	14	Polly Peck	26
Barclays	48	Racal Elect	18
Beecham	32	RHM	11
Blue Circle	45	Rank Org Ord	32
Boots	15	Reed Intnl	50
Bowaters	20	Sears	8
Brit Aerospace	33	TI	20
Brit. Telecom	11	Tesco	20
Brown (J.)	3	Thorn EMI	35
Burton Ord	39	Trust Houses	13
Cadburys	14	Turner Newall	18
Comm Union	19	Unilever	85
Courtaulds	12½	Vickers	19
Debenhams	17½	**Property**	
Distillers	28	Brit Land	12
Dunlop	6	Cap Counties	18
FNFC	8½	Land Secs	25
Gen Accident	45	MEPC	28
Gen Electric	17	Peachey	22
Glaxo	85	Samuel Props	14
Grand Met	25		
GUS 'A'	60	**Oils**	
Guardian	60	Brit. Oil & Min.	4
GKN	27	Brit Petroleum	42
Hanson Tst	17½	Burmah Oil	18
Hawker Sidd	38	Charterhall	6
Hse of Fraser	30	Premier	5
ICI	60	Shell	60
'Imps'	18	Tricentrol	18
Jaguar	28	Ultramar	19
Ladbroke	24		
Legal & Gen	50	**Mines**	
Lex Service	28	Charter Cons	18
Lloyds Bank	45	Cons. Gold	44
Lucas Inds	25	Lonrho	14
Marks & Spencer	11	Rio T Zinc	56

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES AND AGRICULTURE

Malaysia hits out at curb on London tin trading

BY WONG SULONG IN KAULA LUMPUR

MALAYSIA IS prepared to consider the speedy introduction of tin futures trading on the Kuala Lumpur Commodities Exchange to provide an alternative to the London Metal Exchange, if the International Tin Council is prepared to support the move, Datuk Paul Leong, Malaysian Minister of Primary Industries, said here yesterday.

He added that Malaysia would allow tin from Indonesia and Thailand to be traded on the Kuala Lumpur physical tin market if the Tin Council agreed.

The Minister said that the LME's credibility was now highly questionable following the moves last week to suspend tin trading and only resume with a £90 tonne maximum daily limit on the premium that could be charged to sellers seeking to delay meeting their delivery commitments.

"The Exchange's intervention bears out our contention that the Exchange operates in favour of its members and tin consumers," he declared claiming that the LME only acted when the tin price was moving up, but did nothing when prices were falling.

Mr Leong said the LME Board did not take any preventative measures to control traders who thought they could make money by selling heavily when they did not have adequate tin supplies to fulfil the sales commitments.

"In fact the LME Board seems to have encouraged this highly speculative activity and when some LME members were caught, the rules have to be changed to protect their interests," he claimed. The Minister said that Malaysia no longer had any faith in the LME.

Our Commodities Editor writes: Mr Michael Brown, chief executive of the London Metal Exchange, said that the reason trading in the tin market had been temporarily suspended was because it had become "disorderly" with the cash price premiums charged reaching "unacceptable" levels.

He said Malaysia was quite entitled to introduce its own tin futures market, although he wondered how international traders would overcome the foreign exchange difficulties that might be involved.

Tin trading remained subdued on the LME yesterday with little price movements as dealers waited for further developments, although no definite date has yet been fixed for lifting the £90 limit.

The LME zinc cash price rose by only £2 to £611.5 a tonne retaining its premium over the three months quotation.

WEEKLY METALS

Weekly metals prices as supplied by Metal Bulletin were:

ANTIMONY: European free market, 99.6 per cent, $ per tonne, in warehouse, 2,775-2,850.

BISMUTH: European free market, min. 99.99 per cent, $ per pound, tonne lots in warehouse, 3.95-4.15.

CADMIUM: European free market, min. 99.95 per cent, $ per pound, in warehouse, ingots, 0.67-0.73, sticks, 0.72-0.78.

COBALT: European free market, 99.5 per cent, $ per pound, in warehouse, 11.30-11.45.

MERCURY: European free market, min. 99.99 per cent, $ per flask, in warehouse, 290-300.

MOLYBDENUM: European free market, drummed molybdic oxide, $ per pound Mo, in warehouse, 3.30-3.35.

SELENIUM: European free market, min. 99.5 per cent, $ per pound, in warehouse, 6.35-7.00.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit WO_3, cif, 58-68.

VANADIUM: European free market, min. 98 per cent V_2O_5, other sources, $ per pound V_2O_5, cif, 2.10-2.20.

URANIUM: Nuexco exchange value, $ per pound, U_3O_8, 15.00.

Oman cut setback for Opec price discipline

By Richard Johns

ANOTHER CUT by Oman in its contract oil prices has further dimmed the prospects of the Organisation of Petroleum Exporting Countries (Opec) reaching agreement on stricter observance of its members' official selling rates.

Oil companies confirmed yesterday that Oman, a non-Opec producer, had reduced its contract, as opposed to spot market, rate for June to $25.90 per barrel, down 25 cents on what it charged for May deliveries. This year Oman has been retrospectively setting its prices according to spot market realisations.

Its move, confirmed by major customers yesterday, will be a damaging blow to Opec and its few members led by Saudi Arabia genuinely trying to assert price discipline even at the cost of another formal reduction in members' official selling rates. Oman's output is said in industry circles to have reached 500,000 b/d compared with 420,000 b/d in 1984.

Its June price compares with one of $28.55 at the end of last year and the $28 official selling rate for Arab Light, with the some 34 degree API gravity, which has proved untenable in the present market leading to a drastic drop in the Kingdom's output.

Oman has doggedly refused to co-operate with Opec even though it is a member of the Gulf Co-operation Council which includes four members of Opec including Saudi Arabia and Kuwait.

It was also reported that the Soviet Union had proposed a contract price of $25.50 per barrel c.i.f.—including delivery charges—for the first half of July, a 50 cents cut on its offer for June.

As a major exporter currently selling as much as 2m b/d in crude and products the Soviet Union is a major influence on the market. Its exports fell early in the year, presumably for climatic reasons, but it now apparently has a large surplus to dispose of and badly needs foreign exchange proceeds from it.

Facing the facts of overproduction

Ivo Dawnay examines the EEC's latest attempt to grasp the nettle of grain surpluses

A SEA-CHANGE in the management of the EEC's cereals regime is signalled in the first draft of the European Commission's Perspectives for the Common Agricultural Policy (CAP) discussion document to be discussed by the 14 Commissioners today.

Though there remains at least a week of negotiations within the imposing Brussels' Berlaymont building as to the final shape of the proposals, the broad trends are now clear.

Unsurprisingly, *grains* policy tops the list as the key to CAP reform. As ever, the pivotal role of cereals prices—determining as they do costs of livestock production from beef to poultry focuses the attention of the market managers.

Equally unremarkably, the options pointed up by the analysis break down simply into a choice between severe price restraints and the imposition of quantitative restrictions.

What is noteworthy is the starkness with which these choices are laid out, and the truly dramatic changes in the regime that are under consideration to narrow the growing chasm between supply and demand.

The paper does not shy away from the scale of the problem it faces. As the Community, according to the latest reports, looks forward to another record harvest, the paper points out that at best another 12m tonnes of grains could be absorbed by internal demand by 1990.

That leaves up to 20m tonnes with no obvious home. And the mythologies of alternative uses — bioethanol production, for example — are quickly dismissed in the cereals chapter, though they receive unduly sympathetic consideration elsewhere.

Nor does the paper ignore the political hurdles it faces before acceptance. The West German veto on even a price cut as small as 1.8 per cent this year, stands as a real obstacle to a policy which might call for reductions of as much as 20 per cent.

To confront this problem, the discussion document baldly states that on present trends the surplus will become "impossible for the Community to manage or finance."

Its proposed solutions to this dilemma will cast terror into the heart of the arable farming community. It begins by pointing out that the EEC has 3.75m cereals producers and that in seven member states more than 50 per cent of farmers grow some grains.

But it then goes on to draw careful distinctions between the big grain barons—for example, in East Anglia and the Paris basin—who enjoy markedly higher incomes—and the rest. These it divides into the smaller mixed farmer, who often combines cereals growing with complementary livestock production, and the large number of medium sized producers dependent on grains for their annual incomes.

It is to this latter group that future support may be targetted.

The paper suggests that "significant price cuts" combined with increased yields could produce modest increases in production while at the same time increasing outlets (presumably by the price displacement on alternative animal feeds) and reducing the cost of export restitutions.

But the paper adds: "Such a price policy could not, however, be envisaged without some form of income aid, at least on a transitional basis, for the most vulnerable producers, who would appear to be the medium-sized group."

Such aids would have to be selective, and, as one option proposed, could be based on the number of hectares farmed.

On the guaranteed threshold system, the paper moots the possibility of applying price cuts when ceilings are exceeded in the year of production (as opposed to the following year as is the case at present) though it adds that this move would bring some uncertainty to farmers.

Another, or perhaps an additional, measure could be to confine the opening of intervention stores (or at least payments) until the end of season, April or May.

A co-responsibility levy is also considered, preferably to be applied at the first point of sale, and possibly differentiated according to the size of farm. In addition, the paper looks at the option of a Cereals Board set up specifically to regulate supply management and export development — particularly if producers are expected to help finance export costs.

If these options strike fear into the farming community, the quota option is no less daunting. Unlike previous Commission statements, the paper suggests such a move is not impossible. "It should not be supposed," it says, "that a quota system could not be applied in the cereals sector.

"If the administrative difficulties could be overcome for sugar and milk, many of the practical problems could no doubt be overcome for cereals"—possibly at the point of first sale.

That, however, is described as likely to inspire higher prices, lower demand, and no improvement in incomes.

Somewhat lamely, the paper concludes with a disenchanted perusal of a set-aside programme—an option it clearly does not like.

But the final conclusion is plain enough. "What is clear is that unless the Community pursues the option of a rigorous price policy outlined (above) it will be obliged to introduce one or more of the other measures for the supply of cereals."

In other words, "choose your poison."

Cocoa pact talks resume today

BY ANDREW GOWERS

PRODUCERS AND consumers of cocoa resume their search for a new International Cocoa Agreement in London today with three days of informal consultations aiming to build on tentative progress made at the last full round of talks in Geneva last March.

The new pact would be designed to replace the current ICCA, which is due to expire in September but which will probably be rolled over for another year at a meeting of the International Cocoa Organisation's governing council starting next Monday.

However, the meeting's task of trying to bridge the gap between producers and consumers will not be made any easier by the fall in the cocoa price since March. The ICCO price was yesterday quoted at 94 cents a pound, well below the current agreement's theoretical minimum price of 106 cents.

Mr Rene Montes, the Guatemalan chairman of the negotiations, will this week be exploring the possibility of calling another full negotiating conference in Geneva in November.

His hopes are founded on last-minute signs of compromise in March over the price range within which any new agreement would support the market.

M Denis Bra Kanon, the Ivory Coast agriculture minister, is reported to have signalled his readiness to accept a significantly lower level of support than his country—the world's largest cocoa producer—had previously been demanding.

At the same time, the European Community—the leading cocoa consumer in the absence of the U.S. from the talks—had tabled what it described as a "final" package of proposals incorporating a higher price than before.

U.S. cancels vote on reduction of acreage

BY NANCY DUNNE IN WASHINGTON

MR JOHN BLOCK, the U.S. Agriculture Secretary, has cancelled plans to conduct a former referendum this month on a proposal which would have cut U.S. wheat plantings sharply to 54m acres.

Although the secretary is required by a 47-year-old law to hold a referendum if Congress fails to pass a new farm bill this year, it was not necessary to schedule the vote in July. Mr Block has been using the threat of the referendum—on support proposals which have little bearing on current realities—to spur Congressional progress on a new farm bill.

Annoyed by this manoeuvre, the House of Representatives passed legislation forcing the secretary to delay the vote. The Senate passed a bill allowing him to delay the referendum. This he did on Friday after the Senate agriculture committee set July 15 as a deadline for completing work on a new farm bill.

However, senators from farm states are still far from agreement on major features of the legislation. The committee has rejected proposals to set mandatory limits on production and, while it seems inclined to drop the loan rate, thus setting lower price floors, it has been unable to agree to what levels prices should drop.

A House subcommittee last week made some progress when it agreed to allow the secretary of agriculture to implement a marketing loan scheme. This would allow the department of agriculture to give operating loans to farmers at one level, but to collect the repayment at much lower terms if wheat prices are depressed. The legislation also guarantees a price of $5 a bushel on half the rower's base acreage. It *also gives farmers* the *option* of voting for mandatory production limitations.

LONDON MARKETS

BASE METALS

LME prices supplied by Amalgamated Metal Trading

ALUMINIUM

	Unofficial close(p.m.) £ per tonne	+ or —	High/low
Cash	761.5-2.5	+8.75	—
3 months	784-5	+2.75	790/783

Official closing (am): Cash 762-3 (755-.5): three months 784-777.5-8): settlement 763 (755.5). Final Kerb Close: 786.5-7. Turnover: 11875 (16700) tonnes.

COPPER

Higher grade	Unofficial close	+ or —	High/Low
Cash	1083.5-4.0	+6.75	1088.5
Three m'nths	1091-.5	+4	1098/1069

Official closing (am): Cash 1088.5-2 (1078-.5): three months 1096.5-7 (1087-8): settlement 1089 (1076.5). First Kerb Close: 1091.5-92.

Cathodes			
Cash	1069-71	+11	1077
Three m'nths	1079-81	+5	—

Official closing (am): Cash 1076-7 (1059-61): three months 1084-5 (1074-0): settlement 1077 (1061). Turnover: 17851 (27675) tonnes. U.S. Producer prices 65/67 cents per pound.

LEAD

	Unofficial close(p.m.) £ per tonne	+ or —	High/low
Cash	305-6	+6	308/306
3 months	303-5	+2.25	306/303

Official closing (am): Cash 306-7 (302.75-.3): three months 305-.5 (301-.5): settlement 307 (303). Final Kerb Close: 305.5. Turnover: 6075 (4850) tonnes. U.S. Spot: 19/21 cents per pound.

NICKEL

	Unofficial close(p.m.) £ per tonne	+ or —	High/low
Cash	4040-50	+40	4055/4052
3 months	4060-5	+47.5	4070/4025

Official closing (am): Cash 4052-55 (3991-3): three months 4066-6013 (3990-5): settlement 4055 (3993). Final Kerb Close: 4050-5. Turnover: 1404 (1398) tonnes.

TIN

High grade	Unofficial close(p.m.) £ per tonne	+ or —	High/low for day
Cash	8670-80	+17.5	8690/8680
3 months	9430-40	+32.5	—

Official closing (am): Cash 9575-80 (8500-10): three months 9445-55 (9400-1): settlement 9580 (9510). Final Kerb Close: 9435-40. Turnover: 1150 (2440) tonnes. Straits tin $m30.34 kilo.

Standard			
Cash	9548-58	—4.5	9580
3 months	9495-8	+24	9445/9430

Official closing (am): Cash 9590-600 (9605-15): three months 9445-55 (9400-1): settlement (9515).

ZINC

	Unofficial close(p.m.) £ per tonne	+ or —	High/low
Cash	611-2	+2	610
3 months	599-3	+1	587/581

Official closing (am): Cash 610-3 (611-3): three months 598-7 (595-4): settlement 613 (613). Final Kerb Close: 591-2. Turnover: 6325 (7350) tonnes. U.S. Prime Western: 44/46.75 cents per pound.

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

METALS	July 2 1985	+ or —	Month ago
Aluminium	£1100	....	£1100
Free Mkt	$1025/065	....	$1085/115
Copper			
Cash h Grade	£1084	+6.75	£1128
6 mths	£1091.25	+4	£1136.5
Gold troy oz	$309	—4.25	$315.75
Lead Cash	£305.5	+3	£298
3 mths	£303.75	+2.25	£301.75
Nickel			
Free Mkt	240/270c	—8	250/280c
Palladium oz	$93.50	—3.15	$96.80
Platinum oz	$257.10	—0.65	$268.10
Quicksilver†	$280/290	....	$290/300
Silver troy oz	456.45p	—7.05	474.50p
3 mths	468.85p	—7.20	488.70p
Tin cash	£8553	—4.5	£8582.5
3 mths	£9426.5	+24	£9477.5
Tungsten	$78.75	—0.06	$79.03
Wolfram 22.04lb	$56/60	....	$61/65
Zinc	£611.5	+2	£597.5
3 mths	£598.5	+1	£608.85
Producers	$680	....	$950/960

OILS	July 2 1985	+ or —	Month ago
Coconut (Phil)	$500x	....	$615
Palm Malayan	$545u	....	$575
SEEDS			
Copra Phil	‡	....	$375
Soyabean (U.S.)	$225.5w	—3.9	$231.25
GRAINS			
Barley Fut. Sept.	£90.60	—0.05	£97.95
Maize	£145.00	....	£147.50
Wheat Fut. Sept	£97.55	—0.25	£98.15
No. 2 Hard Wint.	‡	....	‡
OTHERS			
Cocoa Ft. Sept.	£1736.5	+23	£1735.5
Coffee Ft. Sept.	£1881.5	—30.5	£2079.5
Cotton A Index	62.40c	....	63.60c
Gas Oil Aug.	$211.0	—1	$214.75
Rubber (kilo)	66p	....	64p
Sugar (raw)	$84z	—3	$88
Wooltops 64s	453pkilo	....	460pkilo

‡ Unquoted. u Aug. x Aug-Sept. w Sept. z July-Aug. † Per 76 lb flask. c Cents per pound.

INDICES

FINANCIAL TIMES

July 1	June 28	M'th ago	Year ago
276.04	278.13	—	301.06

(Base: July 1 1952 = 100)

REUTERS

July 2	July 1	M'th ago	Year ago
1741.5	1744.5	1820.4	1916.0

(Base: September 18 1931 = 100)

MOODY'S

May 14	May 13	M'th ago	Year ago
861.9	823.9	—	—

(Base: December 31 1931 = 100)

DOW JONES

Dow Jones	July 1	June 28	Month ago	Year ago
Spot	116.38	117.61	—	135.86
Fut.	116.76	118.40	—	134.38

(Base: December 31 1974 = 100)

GOLD

Gold fell $4¼ to $308¾-309¼ on the London bullion market yesterday. It opened at $310-310½, and was fixed at $310.85 in the morning and $308.25 in the afternoon, the lowest level for 15 weeks. The metal touched a low on the day of $307-307½, but recovered a little on short covering. Selling pressure increased in the early afternoon, on the opening of U.S. markets, on continued fears about lower oil prices, ahead of Friday's meeting of Opec ministers. The highest point touched was $311-311½.

GOLD BULLION (fine ounce) July 2

Close	$308¾-309¼	(£200⅝-267¼)
Opening	$310-310½	(£238-238½)
M'n'g fix	$310.85	(£238.455)
Aft'n'n fix	$308.25	(£930.379)

GOLD AND PLATINUM COINS

Kr'g'rnd	$317½-318¼	(£243¼-243¾)
½ Krug.	$164-164½	(£125¾-180¼)
¼ Krug.	$83½-84¼	(£64-64½)
1/10 Krug.	$34-34½	(£20-26½)
Mapleleaf	$318-319¾	(£244½-245)
New Sov.	$73¼-74	(£50¼-56¾)
½ New Sov	$44¼-45	(£34-34½)
Old Sov.	$74½-76	(£67¼-58½)
$20 Eagle	$445-485	(£341-371½)
Noble Plat	$263-266¼	(£202-204½)

SILVER

Silver was fixed 7.05p an ounce lower for spot delivery on the London bullion market yesterday at 456.45p. U.S. cent equivalents of the fixing levels were: spot 593.85c, down 15.65c; three-month 604.6c, down 16c; six-month 616.25c, down 16.65c; and 12-month 642.35c, down 16.25c. The metal opened at 454½-457½p (592-595c) and closed at 451½-454½p (589-592c).

SILVER per troy oz	Bullion fixing price	+ or —	L.M.E. p.m. Unoffic'l	+ or —
Spot	456.45p	—7.05	451.5p	—11
3 months	468.85p	—7.20	465.25p	—10.7
6 months	480.35p	—7.00	—	—
12 months	509.90p	—7.25	—	—

LME—Turnover: 41 (97) lots of 10,000 oz.

Three months high 472, low 464.

FREIGHT FUTURES

Values were again eroded following lower physical prices on the major grain routes. January recovered late in the session, reports Clarkson Wolff. The Baltic Freight Index was 854, down 10.5.

	Close	High/Low	Prev.
July	840-845	842.5-840	848-849.5
Oct.	862-864	864-860	869-871
Jan.	867-870	887/862	870.5-872.0
April	878-880	900-876	910-915
July	870-885	877.5	883-887
Oct.	880-930	907.5	920-980
Jan.	970	970	930-960
April	950-1030	980	980-1040

Turnover: 125 (83).

GRAINS

July wheat lost ground throughout the day on lack of physical demand. New crops were a touch easier on better weather conditions. Profit-taking buying support was found at lower levels, reports Muirpace.

WHEAT Mnth	Yesterd'ys close	+ or —	BARLEY Yesterdys close	+ or —
July	112.26	—2.30	—	—
Sept.	97.55	—0.25	96.60	—0.05
Nov.	100.90	—0.15	100.46	—0.05
Jan	104.50	—0.30	104.05	+0.05
Mar.	107.65	—0.35	107.06	+0.05
May	111.00	—0.25	109.76	+0.05

Business done—Wheat: July 112.75 only. Sept 97.65-7.50, Nov 101.00-0.90, Jan 104.50 only, Mar 107.60 only, May 111.05-1.00. Sales: 58 lots of 100 tonnes. Barley: Sept 96.55-6.45, Nov, Jan, Mar and May untraded. Sales: 46 lots of 100 tonnes.

LONDON GRAINS—Wheat: U.S. Dark Northern Spring No. 1, 15 per cent: July 136.75, Aug 134.90, Sept 134.65, Oct 140.10, sellers, transhipment East Coast. U.S. No. 2 Soft Red Winter: Aug 124, Sept 125.25, Oct 127.75, sellers. EEC July 115, seller. English feed, fob Dec 105 paid, sellers. East Coast. Maize: U.S. N. 3 Yellow/French, transhipment East Coast: July 145, sellers. Barley: English feed, fob: July/Aug 97 paid East Coast. Rest unquoted.

H G C A — Locational ex-farm spot prices. Feed barley: S. West 107.00, N. West 109.00. The UK monetary co-efficient for the week beginning Monday July 8 (based on HGCA calculations using five days' exchange rates) is expected to remain unchanged at 0.964.

RUBBER

The London physical market opened easier, continued to fall throughout the day and closed dull, reports Lewis and Peat. Closing prices (buyers): spot 59.00p (same); Aug 58.25p (58.50p); Sept 66.25p (66.50p). The Kuala Lumpur fob price for RSS No. 1 was 301.5 (302.0) cents a kg and for SMR 20 was 187.5 (188.6).

COFFEE

Against slightly weaker sterling the market opened £3-10 higher in quiet conditions, reports DBL. Gains were extended to £20 by trade and commission house buying, but values fell sharply during the afternoon as stop-loss orders were triggered by commission house selling.

COFFEE	Yesterd'ys Close	+ or —	Business Done
July	1840-45	—14.6	1876-1855
Sept.	1881-82	—30.5	1930-1878
Nov.	1950-55	—27	1975-1925
Jan.	1977-80	—26.8	2020-1877
March	1981-50	—30.0	2020-1975
May	1990-10	—50.0	2040-2015
July	2000-40	—55.0	2095-2060

Sales: 3,098 (4,749) lots of 5 tonnes.

ICO indicator prices (U.S. cents per pound) for July 1: Comp. daily 1979 127.74 (128.40); 15-day average 130.53 (130.84).

COCOA

The market opened weaker than due and traded quietly throughout the morning. During the afternoon strength inspired by New York allowed some of the origins to make sales. Hedging of these purchases brought the market down from the highs, reports Gill and Duffus.

COCOA	Yesterday's Close £ per tonne	+ or —	Business Done
July	1758-1759	+21.5	1768-1757
Sept.	1736-1737	+23.0	1745-1724
Dec.	1699-1700	+22.5	1708-1690
Mar.	1706-1707	+23.0	1712-1695
May	1718-1722	+21.5	1720-1710
July	1728-1736	+20.0	1730-1720
Sept.	1735-1750	+20.0	—

Sales: 4,306 lots of 10 tonnes.

ICCO indicator prices (U.S. cents per pound). Daily price for July 2: 96.04 (94.71): five-day average for July 3: 94.59 (94.00).

SUGAR

LONDON DAILY PRICE—Raw sugar $84.00 (£64.50), down $3.00 (down £1.50) a tonne for July-August delivery. White sugar $132.00, down $2.50.

Prices eased following lower New York quotations, reports C. Czarnikow.

No. 6 Contract	Yest'day's close	Previous close	Business done
	$ per tonne		
Aug	85.8-94.4	86.6-89.6	88.8-85.6
Oct	87.6-88.0	90.2-90.4	90.2-87.4
Dec	91.0-92.0	94.2-94.4	94.0-91.2
Mar	100.2-102.4	105.0-105.2	105.0-101.0
May	106.2-107.0	109.4-109.6	109.0-108.8
Aug	112.0-112.8	115.0-115.2	114.6-112.4
Oct	116.4-117.6	110.4-119.8	119.8-116.6

Sales: 903 lots of 50 tonnes.

Tate and Lyle delivery price for granulated basis sugar was £166.50 (£167.50) a tonne for export.

International Sugar Agreement—(U.S. cents per pound fob and stowed Caribbean ports). Prices for July 1: Daily price 2.73 (2.81): 15-day average 2.80 (same).

SOYABEAN MEAL

The market opened unchanged in lacklustre trading, reports T. G. Roddick. Prices drifted in the afternoon but recovered on commission house buying.

	Yesterday close £ per tonne	+ or —	Business Done
August	110.2-110.8	—0.70	—
October	115.5-113.9	+0.80	113.5-113.0
Dec	118.5-118.7	+0.25	118.5-118.6
Feb.	124.0-125.0	+0.00	124.0
Apr	125.2-126.0	+0.75	125.5
June	128.0-128.5	+0.40	126.3
August	128.6-129.6	-0.50	—

Sales: 832 lots of 20 tonnes.

OIL

The volume of crude oil trading was minimal. Nymex WTI opened unchanged for August and traded 8c up at 1 pm EST. Petroleum products other than naptha remained quiet and stable ahead of the Opec meeting. Naptha firmed slightly as demand for prompt *cargoes* continued—Petroleum Argus, London.

SPOT PRICES

	Latest	Change + or —
CRUDE OIL—FOB ($ per barrel)—July		
Arab Light	26.69-26.70*	—0.10
Arab Heavy	24.85-25.05*	—
Dubai	26.10-25.20*	—
Brent Blend	26.45-26.55	—0.15
W.T.I. (1pm est)	26.75-26.80*	—0.05
Forcados (Nigeria)	26.50-26.40	—
Urals (cif NWE)	25.50-85.60	—0.05
PRODUCTS—North West Europe Prompt delivery cif ($ per tonne)		
Premium gasoline	281-283	—
Gas Oil	216-217	—
Heavy fuel oil	127-128	—
Naphtha	266-252	+0.5

*August Petroleum Argus estimates

GAS OIL FUTURES

Month	Yest'day's Close $ U.S. per tonne	+ or —	Business Done
July	215.50	+0.75	215.50-14.90
Aug	211.50	—1.00	212.00-11.50
Sep	211.50	—0.75	212.25-11.00
Oct.	213.00	—0.50	213.25-12.75
Nov	214.50	—1.00	—
Dec.	216.50	—1.50	—
Jan.	217.00	—0.75	—

Turnover: 752 (438) lots of 100 tonnes.

POTATOES

The market opened lower, testing old support levels of £76.00, basis April. Buying interest here was keen and values recovered during fairly brisk morning business. Prices continued to rise during a quiet afternoon, reports Coleyand Harper.

Month	Yesterday's close £ per tonne	Previous close	Business Done
Nov.	59.30	58.30	58.50-57.00
Feb.	68.00	88.50	—
Apr.	78.30	77.10	78.20-76.00
May	84.00	86.30	84.00-81.70

Sales: 285 (293) lots of 40 tonnes.

PIGMEAT

Prices remained steady despite slightly lower physical prices, reports CCST Commodities.

Month	Yesterdays close p. per kilo (deadweight)	Previous close	Business done
Aug.	102.70	102.90	102.70-102.50
Oct	100.40	106.70	106.50
Nov.	106.50	106.80	106.80-106.50
Feb.	98.90	98.00	98.80
April	88.00	99.40	—
June	86.50	86.30	—

Sales: 16 (11) lots of 50 carcases, 3,250 kgs.

MEAT

MEAT COMMISSION — Average fatstock prices at representative markets. GB—Cattle 96.40p per kg lw (—1.56). GB—Sheep 156.59p per kg est dcw (+6.93). GB—Pigs 78.35p per kg lw (—2.60).

SMITHFIELD—Pence per pound. Beef: Scotch killed sides 76.0 to 81.0; English forequarters 51.0 to 54.5; Ulster hindquarters 86.0 to 92.0, forequarters 50.0 to 54.0. Veal: Dutch hinds and ends 138.0 to 142.5. Lamb: English small 66.0 to 72.0, medium 64.0 to 68.0, heavy 60.0 to 65.0. Imported: New Zealand PL 65.0 to 58.0, PX 64.5 to 65.5. Pork: English under 100 lb 50.0 to 57.5. 100-120 lb 50.5 to 56.0, 120-160 lb 45.0 to 61.0.

U.S. MARKETS

PRECIOUS METALS stabilised, after Monday's sharp losses, on light short-covering following strength in the energy complex, reports Heinold Commodities. Copper moved slightly higher as light demand emerged in cash markets. Sugar remained under pressure reflecting poor physical interest for raw sugar. Cocoa traded slightly higher on reduced expectations for the Brazilian crop. Coffee weakened on the good availability of nearby coffee. Cotton was steady reflecting trade support. Heating oil advanced on profit-taking and short-covering following recent declines. Trading was light ahead of the API report and the Opec meeting.

NEW YORK

ALUMINIUM 40,000 lb, cents/lb

	Close	High	Low	Prev
July	43.65	43.60	43.40	43.60
August	43.95	—	—	43.90
Sept	44.25	44.25	44.05	44.20
Dec	45.25	45.30	45.05	45.20
Jan	45.60	—	—	45.55
March	46.25	—	—	46.25
May	46.95	—	—	46.95
July	47.65	—	—	47.65
Sept	48.35	—	—	48.35
Jan	49.75	—	—	49.75

COCOA 10 tonnes, $/tonnes

	Latest	High	Low	Prev
July	2005	2005	1980	2000
Sept	2045	2068	2043	2052
Dec	2031	2058	2020	2034
March	2046	2060	2029	2043
May	2075	2075	2055	2055
July	2052	2052	2052	2060
Sept	—	—	—	2077
Dec	—	—	—	2090

COFFEE "C" 37,000 lb, cents/lb

	Close	High	Low	Prev
July	139.00	139.90	139.00	139.70
Sept	141.68	142.70	140.61	142.16
Dec	143.28	144.30	142.60	143.57
March	142.70	143.50	142.25	143.28
May	142.38	143.00	142.20	143.13
July	142.60	143.00	141.90	141.69
Sept	141.55	142.00	142.00	141.00
Dec	142.25	—	—	140.00

COPPER 25,000 lb, cents/lb

	Close	High	Low	Prev
July	58.30	58.35	58.05	58.10
August	58.70	—	—	58.55
Sept	59.15	58.25	58.75	58.00
Dec	60.15	60.30	59.85	60.00
Jan	60.60	60.45	60.20	60.40
March	61.15	61.25	60.80	61.05
May	61.66	61.55	61.50	61.55
July	62.16	62.30	61.95	62.05
Sept	62.70	62.55	62.45	62.60
Dec	63.40	—	—	63.30

COTTON 50,000 lb, cents/lb

	Close	High	Low	Prev
July	61.07	61.65	60.16	60.30
Oct	61.45	61.46	60.58	60.97
Dec	61.94	61.58	61.06	61.29
March	62.50	62.50	62.03	62.30
May	62.70	62.70	62.34	62.65
July	62.51	62.50	62.25	62.46
Oct	58.45	58.60	58.60	58.75
Dec	58.05	58.05	57.90	58.15

CRUDE OIL (LIGHT) 42,000 U.S. gallons, $/barrels

	Latest	High	Low	Prev
August	26.88	26.92	26.58	26.68
Sept	26.18	26.20	25.90	26.08
Oct	25.79	25.79	25.57	25.68
Nov	25.48	25.50	25.25	25.40
Dec	25.20	25.23	24.93	25.10
Jan	24.90	24.92	24.60	24.79
Feb	24.65	24.65	24.61	24.54
March	24.30	24.30	24.30	24.34
April	24.35	24.35	24.35	24.34
May	24.20	24.20	24.20	24.34

GOLD 100 troy oz, $/troy oz

	Close	High	Low	Prev
July	309.6	309.0	309.0	309.0
August	311.4	312.5	308.3	310.8
Sept	313.0	—	—	312.5
Oct	314.7	315.9	311.5	314.2
Dec	318.5	319.5	315.5	316.0
Feb	322.5	323.6	319.0	322.1
April	326.6	326.8	323.6	326.2
June	330.2	—	—	330.7
August	335.6	—	—	335.2
Oct	339.2	339.0	339.0	339.8
Dec	344.5	343.0	343.0	344.8
Feb	349.0	—	—	349.7
April	354.7	—	—	354.8

HEATING OIL 42,000 U.S. gallons, cents/U.S. gallons

	Latest	High	Low	Prev
August	67.60	67.65	66.90	67.10
Sept	68.02	68.05	67.30	67.47
Oct	68.85	68.85	68.15	68.34
Nov	69.69	69.70	69.05	69.10
Dec	70.30	70.40	69.85	69.80
Jan	70.60	70.80	70.35	70.40
Feb	70.35	70.35	—	70.50
March	69.30	—	—	69.90
April	68.65	—	—	68.25

ORANGE JUICE 15,000 lb, cents/lb

	Close	High	Low	Prev
July	140.60	141.50	139.75	139.65
Sept	137.15	137.50	136.30	136.70
Sept	137.15	137.50	136.30	136.70
Nov	134.60	135.25	134.30	134.20
Jan	133.45	133.65	133.25	132.90
March	133.45	133.25	133.25	133.60
May	133.45	—	—	133.60
July	133.45	—	—	133.00
Sept	133.45	—	—	133.00
Nov	133.45	—	—	133.00

PLATINUM 50 troy oz, $/troy oz

	Close	High	Low	Prev
July	256.3	257.0	252.0	248.6
Oct	258.9	259.0	254.0	251.2
Jan	263.6	263.5	259.0	256.1
April	268.6	269.0	264.6	201.2
July	273.9	274.0	273.0	267.1

SILVER 5,000 troy oz, cents/troy oz

	Close	High	Low	Prev
July	590.1	596.0	580.0	592.6
Aug	593.3	—	—	596.2
Sept	597.6	603.0	588.0	600.5
Dec	609.1	615.0	599.0	612.1
Jan	613.2	616.4	610.0	616.4
March	621.4	627.0	611.0	624.8
May	629.0	630.0	625.0	633.3
July	638.2	641.0	638.0	642.7
Sept	648.7	655.0	648.5	652.0
Dec	663.4	664.0	660.0	667.2

SUGAR WORLD "11" 112,000 lb, cents/lb

	Close	High	Low	Prev
Sept	2.67	2.75	2.67	2.61
Oct	2.80	2.87	2.79	2.90
Jan	3.05	3.20	3.10	3.23
March	3.45	3.53	3.44	3.58
May	3.64	3.73	3.64	3.80
July	3.85	3.94	3.85	3.99
Sept	3.63	—	—	4.12
Oct	4.10	4.20	4.10	4.29

CHICAGO

LIVE CATTLE 40,000 lb, cents/lb

	Close	High	Low	Prev
Aug	58.20	58.25	56.86	56.85
Oct	58.85	58.90	57.70	57.77
Dec	61.15	61.20	60.00	60.25
Feb	61.52	61.92	61.60	61.20
April	62.70	62.77	62.15	62.27
June	63.16	63.45	63.00	63.10

LIVE HOGS 30,000lb, cents/lb

	Close	High	Low	Prev
July	49.67	49.75	48.82	49.47
Aug	47.95	48.22	47.25	47.85
Oct	43.86	44.07	43.00	43.57
Dec	45.37	45.50	44.80	45.40
Feb	47.02	47.27	46.70	47.20
April	44.60	45.00	44.56	44.97
June	46.95	47.40	46.96	47.30
July	47.70	47.75	47.00	47.90
Aug	47.60	47.60	47.60	47.85

MAIZE 5,000 bu min, cents/56-lb bushel

	Close	High	Low	Prev
July	269.2	270.4	268.0	267.4
Sept	252.0	253.6	252.0	252.6
Dec	247.8	249.0	247.2	247.6
March	257.4	258.2	257.0	257.0
May	261.4	262.0	261.0	261.0
July	261.0	262.0	260.8	260.4
Sept	247.0	247.4	246.2	246.0

PORK BELLIES 38,000 lb, cents/lb

	Close	High	Low	Prev
July	58.72	59.27	57.92	58.92
Aug	58.07	59.60	58.35	59.62
Feb	67.02	68.30	66.95	67.52
March	67.00	68.10	66.80	67.30
May	68.61	69.00	67.75	68.30
July	69.21	69.25	67.80	68.90
Aug	67.70	67.70	67.70	67.70

SOYABEANS 5,000 bu min, cents/60 lb-bushel

	Close	High	Low	Prev
July	556.0	556.2	551.0	553.2
Aug	550.2	552.2	546.0	547.4
Sept	545.2	546.4	540.0	541.6
Nov	548.6	549.8	542.0	544.2
Jan	558.6	560.0	552.6	541.4
March	569.0	569.4	563.0	565.2
May	575.4	576.0	571.0	573.2
July	580.0	580.0	574.0	578.0

SOYABEAN MEAL 100 tons, $/ton

	Close	High	Low	Prev
July	118.2	119.2	117.5	117.7
Aug	121.3	121.7	119.8	120.4
Sept	123.9	124.2	122.5	123.1
Oct	126.4	127.7	125.0	125.6
Dec	131.5	131.9	130.3	130.7
Jan	133.6	134.0	132.8	133.2
March	138.6	139.3	137.6	138.0
May	144.0	145.1	143.6	143.2
July	148.3	149.1	148.5	148.6

SOYABEAN OIL 60,000 lb, cents/lb

	Close	High	Low	Prev
July	25.48	29.64	29.36	29.58
Aug	28.11	28.29	27.96	28.28
Sept	27.12	27.30	26.93	27.24
Oct	26.25	26.37	26.06	26.32
Dec	25.40	25.53	25.17	25.37
Jan	25.60	25.12	24.90	24.96
March	24.94	24.95	24.61	24.77
May	24.70	24.90	24.48	24.65
July	24.33	24.35	24.20	24.30
Aug	24.00	—	—	23.93

WHEAT 5,000 bu min, cents/60-lb bushel

	Close	High	Low	Prev
July	314.2	318.6	314.4	318.4
Sept	316.0	320.6	318.0	320.2
Dec	324.0	326.0	324.0	325.6
March	324.0	326.0	324.3	325.6
May	312.2	316.0	312.1	313.4
July	298.4	—	298.0	298.4

OTHER MARKETS

WOOL FUTURES

SYDNEY GREASY WOOL—Close (in order: buyer, seller, business). Australian cents per kg. July 607.0, 612.0, 610.0-607.0; Oct 621.0, 623.0, 622.0; Dec 622.0, 626.0, 623.0; March 629.0, 630.0, 629.0; May 632.0, 640.0, nil; July 637.0, 647.0, nil; Oct 616.0, 640.0, nil; Dec 624.0, 650.0, nil. Sales: 29.

HIDES

HIDES — Birmingham (Manchester). Second clears. Ox: 31-35.5 kg, 92.8p a kg, withdrawn (94.2p); 26-30.5 kg, 109.0p a kg (108.7p); 22-25.5 kg, 116.3p a kg withdrawn (110.1p withdrawn). Cows: 25.5 kg, 112.1p a kg withdrawn (115.3p).

PARIS

SUGAR—(FFr per tonne): Aug 1187-1192, Oct 1178-1185, Dec 1195-1200, Mar 1219-1225, May 1265-1270, Aug 1330-1334.

ROTTERDAM

WHEAT—(U.S. $ per tonne) U.S. No. 2 Soft Red Winter: Afloat 139, Aug 142.50, Sept 145, Oct 148, sellers. U.S. No. 2 Northern Spring, 14 per cent protein: Spot 172, July 121.60, Aug 158.25, Sept 157, Oct 163.50, Nov 165.50, sellers. U.S. Northern Spring, 15 per cent protein: July 172.60, Aug 169, Sept 168.60, Oct 174.50, Nov 176.50, sellers. U.S. No. 3 Hard Amber Durum: July 166, Aug 163, Sept 158, Oct 164, Nov 168, sellers. Canadian No. 1 Western Amber Durum: Spot 177, July 176, Aug 174, Sept 171 sellers.

MAIZE—(U.S. $ per tonne) U.S. No. 3 Yellow: Afloat 126-126, July 126, Aug 124, Sept 122, Oct/Dec 120, Jan/March 124, sellers. Argentine, Plate: Afloat 133-130, July 132, Aug 133, sellers.

JUTE

JUTE—July/August shipment, c and f Dundee: BTC $590, BWC $585, BTD $565, BWD $560; c and f Antwerp: BTC $590, BWC $585, BTD $565, BWD $560; c and f Dundee, ex-India, July shipment: 40 in, 10 oz, £22.67, 40 in, 7.5 oz, £17.05; B Twills £68.95.

COTTON

LIVERPOOL—Spot and shipment sales amounted to 156 tonnes. Fair trading developed mostly in East African supplies. Pakistani growths moved off steadily.

SPOT PRICES—Chicago loose lard 19.50 (same) cents per pound. New York tin 567.0-74.0 (571.0-74.0) cents per pound. Handy and Harman silver bullion 591.0 (604.0) cents per troy ounce.

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar quiet and dull

The dollar was slightly higher on the day, but trading was very quiet on the foreign exchanges, and the U.S. currency closed near its lows on profit taking. Higher U.S. interest rates, with Federal funds finishing at 8 per cent on Monday in New York, and an early rise in Eurodollar rates, gave the dollar an initial boost. Strong resistance around DM 3.0250 on Monday was also seen to provide some support. Yesterday's figures on U.S. factor orders—rising 2.1 per cent in May compared with a fall of 0.3 per cent in April—and single family home sales—rising 9.7 per cent in May against a revised drop of 11.5 per cent in April—provided a little further demand for the dollar in the early afternoon but this was shortlived, and the currency declined towards the European close.

The dollar rose to DM 3.0450 from DM 3.0410; FFr 9.27 from FFr 9.2625; and Y248.30 from Y247.90, but fell to SwFr 2.5470 from SwFr 2.5485.

On Bank of England figures the dollar's index rose to 144.3 from 143.9.

STERLING — Trading range against the dollar in 1985 is 1.3100 to 1.0525. June average 1.2813. Exchange rate index fell 0.3 to 80.9 — the lowest level of the day. It opened at 81.0, and was at that point for most of the day, touching a peak of 81.1 at 11 am.

Sterling was little changed, but maintained a firm undertone on expectations that London interest rates will remain high in the near future. This offset any nervousness about oil prices, on rumours of discounting by one or two countries, ahead of Friday's meeting of Opec ministers in Vienna. The pound eased 10 points to $1.3040-1.3050, and also fell to SwFr 3.2225 from SwFr 3.3250, but was unchanged at DM 3.9725, and rose to FFr 12.0850 from FFr 12.0750, and Y324 from Y323.50.

D-MARK — Trading range against the dollar in 1985 is 3.4510 to 2.9730. June average 3.0639. Exchange rate index 121.8 against 119.7 six months ago.

The D-Mark lost ground to the dollar in very thin trading. Yesterday's statistics on U.S. new home sales and factory orders in May had little impact, but briefly took the dollar above DM 3.05. The U.S. currency closed at DM 3.0460 compared with DM 3.03675 on Monday, but this was near the day's low for the dollar. Earlier in the day the dollar showed a firmer tone after a rise in the Federal funds rate overnight, and a firming of Eurodollar rates. At the same time the D-Mark was depressed by speculation the Bundesbank will continue to encourage the downward drift in German interest rates, although there is little hope of an early cut in the discount or Lombard rates. Confidence in the domestic economy was helped by a rise of 0.6 per cent in May industrial production.

STERLING INDEX

	July 2	Previous
8.30 am	81.0	81.3
9.00 am	81.0	81.5
10.00 am	81.0	81.5
11.00 am	81.1	81.5
Noon	81.0	81.5
1.00 pm	81.0	81.5
2.00 pm	81.0	81.4
3.00 pm	81.0	81.2
4.00 pm	80.9	81.2

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July 2	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian franc	44.9008	45.3017	+0.89	+1.18	±1.5471
Danish krone	8.14104	8.07112	−0.86	−0.63	±1.6419
German D-mark	2.24184	2.25072	+0.40	+0.63	±1.1476
French franc	6.87456	6.85274	−0.32	−0.09	±1.3669
Dutch guilder	2.52595	2.53625	+0.41	+0.64	±1.5171
Irish punt	0.72569	0.717831	−1.08	−0.85	±1.6673
Italian lira	1403.49	1435.02	+2.25	+2.25	±4.0410

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

	July 2	Prev. close
£ Spot	$1.3030-3060	$1.3035-1.3046
1 month	0.63-0.63 pm	0.61-0.60 pm
3 months	1.55-1.48 pm	1.55-1.52 pm
12 months	4.15-4.00 pm	4.35-4.28 pm

Forward premiums and discounts apply to the U.S. dollar

POUND SPOT—FORWARD AGAINST POUND

July 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.2990-1.3060	1.3040-1.3050	0.56-0.53c pm	5.01	1.54-1.49pm	4.65
Canada	1.7660-1.7725	1.7680-1.7720	0.01c pm-par	0.03	0.02-0.01pm	0.03
Nethlnd.	4.46-4.49¼	4.47¾-4.48¾	2½-2⅜c pm	9.03	6⅝-6½pm	5.86
Belgium	79.70-80.08	79.95-80.05	30-26c pm	4.20	79-72pm	3.78
Denmark	14.22-14.29	14.24½-14.25½	4½-2¼ore pm	2.89	9½-7¼pm	2.37
Ireland	1.2640-1.2690	1.2650-1.2660	0.32-0.10p pm	2.28	0.71-0.46pm	1.85
W. Ger.	3.96¼-3.98	3.96¾-3.97¾	2½-2¼pf pm	7.38	7⅛-6⅞pm	7.06
Portugal	226½-229	226½-227	220-555c dis	−20.51	565-1535dis	−18.52
Spain	227-227¾	227-227¾	20-60c dis	−1.85	155-200dis	−3.12
Italy	2,523-2,535¼	2,529½-2,530½	par-4 lire dis	−0.95	6-11dis	−1.34
Norway	11.42½-11.45¾	11.42½-11.43½	⅞ore pm-⅛ dis	−0.39	½-1½dis	−0.22
France	12.08¼-12.11½	12.08-12.09	2¼-2¼c pm	2.48	6¼-6pm	2.11
Sweden	11.42-11.45⅞	11.42½-11.43½	3-3⅞ore dis	−3.61	11½-12¼dis	−4.29
Japan	322¾-324½	323½-324½	1.85-1.75y pm	6.67	5.05-4.90pm	6.14
Austria	27.80-27.95	27.89-27.93	15½-13¾gro pm	6.21	42-38½pm	5.74
Switz.	3.31½-3.32¾	3.31¾-3.32¾	2¼-2c pm	7.67	6½-5⅞pm	7.22

Belgian rate is for convertible francs. Financial franc 80.35-80.50. Six-month forward dollar 2.69-2.64c pm, 12-month 4.25-4.10c pm.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

July 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.2990-1.3060	1.3045-1.3050	0.56-0.53c pm	5.01	1.54-1.49pm	4.65
Ireland†	1.0250-1.0308	1.0298-1.0308	0.30-0.20c pm	2.92	0.80-0.65pm	2.82
Canada	1.3569-1.3586	1.3570-1.3580	0.19-0.21c dis	−1.77	0.56-0.59dis	−1.69
Nethlnd.	3.4300-3.4500	3.4310-3.4320	0.90-0.27c pm	0.99	1.00-0.97pm	1.15
Belgium	61.20-61.55	61.25-61.35	5½-6½c dis	−1.18	16-18½dis	−1.18
Denmark	10.91-10.96	10.93½-10.94¼	2-2½ore dis	−2.47	4¾-5¼dis	−1.83
W. Ger.	3.0400-3.0575	3.0445-3.0455	0.63-0.58pf pm	2.38	1.86-1.81pm	2.40
Portugal	174½-175½	174½-175½	250-500c dis	−25.71	650-1400dis	−23.43
Spain	173.60-176.65	173.60-173.80	80-105c dis	−0.70	315-345dis	−7.56
Italy	1,940-1,948½	1,940½-1,941½	10-10½ lire dis	−9.31	30-31dis	−0.28
Norway	8.76-8.79½	8.76-8.76½	3¾-4¾ore dis	−5.45	10¾-11¼dis	−5.01
France	9.26¾-9.31	9.26¾-9.27¾	2.05-2.15c dis	−2.71	5.20-6.40dis	−2.71
Sweden	8.76¼-8.79¾	8.77-8.77½	6¼-7¼ore dis	−8.56	19¼-16¾dis	−8.88
Japan	248.10-248.60	248.25-248.35	0.37-0.33y pm	1.69	1.00-0.95pm	1.57
Austria	21.36-21.47½	21.36-21.39	2¾-1½gro pm	1.05	6¾-4¼pm	1.02
Switz.	2.5450-2.5600	2.5465-2.5475	0.58-0.52c pm	2.58	1.54-1.48pm	2.36

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 61.60-61.70.

OTHER CURRENCIES

July 2	£	$		£ Note Rates
Argentina Austl.	1.0416-1.0438	0.8000-0.8010	Austria	27.80-28.10
Australia Dollar	1.9520-1.9560	1.4986-1.5015	Belgium	80.00-80.85
Brazil Cruzeiro	7,812-7,844	6,000-6,020	Denmark	14.17-14.31
Finland Markka	8.2190-8.2385	6.3310-6.3330	France	12.05-12.17
Greek Drachma	174.68-178.37	134.29-137.10	Germany	3.95½-3.88½
Hong Kong Dollar	10.0950-10.1050	7.7590-7.7610	Italy	2525-2560
Iran Rial	120.80*	88.00*	Japan	325-329
Kuwait Dinar (KD)	0.3939-0.3946	0.30280-0.30290	Netherlands	4.46-4.60
Luxembourg Fr	79.95-80.00	61.25-61.35	Norway	11.37-11.49
Malaysia Dollar	3.2500-3.2550	2.4980-2.5000	Portugal	221-232
New Zealand Dlr.	2.5975-2.7050	2.0720-2.0765	Spain	219-226
Saudi Arab Riyal	4.7303-4.7360	3.6509-3.6514	Sweden	11.38-11.50
Singapore Dollar	2.6050-2.9100	2.2325-2.2345	Switzerland	3.30¾-3.33¾
Sth African Rand	2.5770-2.5590	1.9860-1.9800	United States	1.29-1.31
U.A.E. Dirham	4.7710-4.7785	3.6720-3.6730	Yugoslavia	362-394

* Selling rate.

CURRENCY MOVEMENTS

July 2	Bank of England Index	Morgan Guaranty Change %
Sterling	80.9	−8.3
U.S. dollar	144.3	+29.0
Canadian Dollar	88.3	−0.2
Austrian schilling	112.3	+3.3
Belgian franc	89.3	−11.2
Danish Kroner	77.0	−6.0
Deutsche mark	121.8	+0.3
Swiss franc	140.3	+8.0
Guilder	112.4	+3.0
French franc	65.1	−16.4
Lira	45.4	−17.2
Yen	155.6	+18.0

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

CURRENCY RATES

July 2	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.768323	0.503940
U.S. $	7½	0.999430	0.736853
Canadian $	8.38	*	1.00108
Austria Sch.	4½	21.4469	10.8202
Belgian Fr	8¼	61.4838	45.3017
Danish Kr	7	10.9432	8.07112
D'mark	4½	3.05287	2.26078
Guilder	5½	3.44006	2.53628
French Fr	9½	9.28674	6.86274
Lira	15¾	1945.75	1435.02
Yen	5	248.010	183.145
Norway Kr.	8	8.77804	6.47353
Span'h Pta.	—	174.401	128.681
Swedish K.	11.8	8.78333	6.47815
Swiss Fr	4	2.55705	1.88328
Greek Dr'ch	20½	135.715	100.065
Irish Punt	13¾	N/A	0.717831

* C$/SDR rate for July 1: N/A.

EXCHANGE CROSS RATES

July 2	Pound St'rling	U.S. Dollar	Deutschem'k	J'panese Yen	French Franc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	1.305	3.973	324.0	12.09	3.383	4.478	2530.	1.770	80.00
U.S. Dollar	0.767	1.	3.048	248.3	9.270	2.547	3.432	1941.	1.357	61.30
Deutschemark	0.252	0.328	1.	81.56	3.042	0.836	1.127	636.8	0.446	20.14
Japanese Yen 1,000	3.086	4.025	12.28	1000.	37.30	10.30	13.82	7809.	5.463	246.8
French Franc 10	0.827	1.079	3.287	268.1	10.	2.749	3.705	2094.	1.465	66.20
Swiss Franc	0.301	0.393	1.196	97.52	3.637	1.	1.348	761.5	0.533	24.08
Dutch Guilder	0.223	0.291	0.887	72.36	2.699	0.742	1.	565.0	0.395	17.87
Italian Lira 1000	0.395	0.515	1.570	128.1	4.777	1.313	1.770	1000.	0.700	31.62
Canadian Dollar	0.565	0.737	2.244	183.1	6.828	1.877	2.530	1429.	1.	45.20
Belgian Franc 100	1.250	1.631	4.966	405.0	15.11	4.153	5.597	3163.	2.215	100.

EURO-CURRENCY INTEREST RATES (Market closing rates)

July 2	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	D-mark	French Franc	Italian Lira	Belgian Franc Conv.	Belgian Franc Fin.	Yen	Danish Krone
Short-term	12¾-12⅞	8⅛-8⅜	8⅞-9⅛	6⅝-6⅞	4-4⅛	5⅜-5½	10⅛-10¼	13¼-14¼	8⅝-8⅞	8½-8¾	6 3/16-6 5/16	8¾-10¼
7 days' notice	12¾-12⅞	7¾-7⅞	9-9¼	6⅝-6⅞	3¾-3	5⅜-5½	10⅛-10¼	13¼-14¼	8⅝-8	8½-8¾	6 3/16-6¼	8¾-10¼
Month	12 11/16-12 13/16	7½-7¾	9 1/16-9⅛	6 5/16-6 7/16	5⅛-5¼	5⅜-5½	10¼-10⅝	13½-14	8⅝-8⅞	8⅝-8⅞	6 5/16-6¼	10-10½
Three months	12⅛-12⅝	7¾-7⅞	9 1/16-9 3/16	6⅜-6½	5 3/16-5 5/16	5⅜-5½	10⅜-10½	13¾-14⅛	8⅝-8⅞	8⅝-8⅞	6¼-6⅜	9⅞-10⅜
Six months	12 1/16-12 3/16	8-8⅛	9 5/16-9 7/16	6 7/16-6 9/16	5 5/16-5 7/16	5⅝-5¾	10⅛-10⅝	13⅞-14¼	8¾-9	8¾-9	6¼-6⅜	9¾-10¼
One year	12-12⅛	8 7/16-8 9/16	9 7/16-9 9/16	6⅝-6¾	5¼-5⅜	5 7/16-5 9/16	11⅛-11¼	14¼-14¾	8⅞-9⅛	9⅛-9⅜	6 5/16-6 7/16	9¾-10¼

Asian $ (closing rates in Singapore): Short-term 7⅞-8 per cent; seven days 7¾-7⅞ per cent; one month 7 13/16-7 15/16 per cent; three months 7¾-7⅞ per cent; six months 7⅞-8 per cent; one year 8¼-8⅜ per cent. Long-term Eurodollars: two years 9¼-9½ per cent; three years 9⅝-9⅞ per cent; four years 10-10¼ per cent; five years 10¼-10½ per cent nominal. Short-term rates are call for U.S. dollars and Japanese yen; others two days' notice.

FINANCIAL FUTURES

Gilts rally

Interest rate futures were generally weaker on the London International Financial futures Exchange yesterday, apart from gilt futures, which closed on a firm note, following the announcement that sales of Government bonds will be exempt from capital gains tax, ending the previous rule where tax was liable unless stock was held for more than 12 months. September gilts touched a peak of 110-31, and closed at 110-25, compared with 110-12 previously. Three-month sterling deposits continued to reflect the lack of incentive in the market at present, as London interest rates are expected to remain firm, and closed at 88.11 for September delivery, against 88.14 on Monday.

Eurodollars opened lower, after a higher cash market overnight in New York, and a weaker trend in Singapore futures.

The recent rise in the Federal funds rate was regarded as technical, but news that the Federal Reserve was adding liquidity in New York, through system repurchase agreements, came too late to have a beneficial effect in London trading.

Figures on U.S. factory orders and new home sales were above expectations, but had very little impact, with the market soon rallying after an initial fall. September Eurodollars finished at 92.06 compared with 92.13 previously.

LONDON

THREE-MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev
Sept	92.06	92.07	91.96	92.13
Dec	91.60	91.61	91.50	91.65
March	91.19	91.17	91.08	91.23
June	90.82	90.75	90.72	90.87
Sept	90.52	—	—	90.57

Est. Volume 4,319 (4,108)
Previous day's open int. — (18,401)

THREE-MONTH STERLING
£500,000 points of 100%

	Close	High	Low	Prev
Sept	88.11	88.14	88.06	88.14
Dec	88.68	88.70	88.62	88.68
March	88.77	88.69	88.67	88.78
June	88.89	88.93	88.93	88.16
Sept	9.99	—	—	89.00

Est. Volume 837 (341)
Previous day's open int. — (5,950)

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev
Sept	110-25	11-31	110-08	110-12
Dec	111-08	—	—	110-27
March	111-15	—	—	111-03

Est. Volume 2,123 (1,141)
Previous day's open int. — (3,160)
Basis quote (clean cash price of 13¼% Treasury 2003 less equivalent price of near futures contract)

STERLING £25,000 $ per £—25 to —13

	Close	High	Low	Prev
Sept	1.2910	1.2915	1.2890	1.2970
Dec	1.2780	1.2770	1.2870	1.2840
March	1.2690	1.2690	1.2690	1.2750

Est. Volume 133 (341)
Previous day's open int. — (4,568)

DEUTSCHE MARKS DM125,000 $ per DM

	Close	High	Low	Prev
Sept	0.3996	0.3291	0.3289	0.3306
Dec	0.3328	—	—	0.3328

Est. Volume 8 (54)
Previous day's open int. — (229)

SWISS FRANCS SwFr 125,000 $ per SwFr

	Close	High	Low	Prev
Sept	0.3944	—	—	0.3947

Est. Volume (3) 2
Previous day's open int. — (182)

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
Sept	0.4038	—	—	0.4044

Est. Volume nil (nil)
Previous day's open int. — (165)

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev
Sept	125.70	127.25	125.40	126.70
Dec	126.30	—	—	127.30

Est. Volume 302 (383)
Previous day's open int. — (1,873)

U.S. TREASURY BONDS
8% $100,000 32nds of 100%

	Close	High	Low	Prev
Sept	77-15	77-16	77-04	77-23
Dec	76-15	—	—	76-24
March	75-15	75-06	75-04	75-24

Est. Volume 1,555 (2,559)
Previous day's open int. — (2,373)

CHICAGO

U.S. TREASURY BONDS (CBT)
8% $100,000 32nds of 100%

	Latest	High	Low	Prev
Sept	77-13	77-14	77-03	77-10
Dec	76-13	76-14	76-03	76-13
March	75-13	75-13	75-04	75-15
June	74-13	74-13	74-07	74-16
Sept	73-10	73-18	73-10	73-19
Dec	72-22	72-22	72-13	72-24
March	—	—	—	71-31
June	—	—	—	71-07
Sept	—	—	—	—
Dec	—	—	—	69-29
March	—	—	—	69-11

U.S. TREASURY BILLS (IMM)

	Latest	High	Low	Prev
Sept	92.94	92.95	92.85	92.94
Dec	92.59	92.59	92.49	92.57
March	92.22	92.22	92.14	92.22
June	91.90	91.90	91.91	91.90
Sept	91.62	91.62	91.55	91.64
Dec	91.38	91.38	91.31	91.40
March	91.18	91.10	91.12	91.19
June	90.95	90.95	90.92	90.98

CERT. DEPOSIT (IMM)
$1m points of 100%

	Latest	High	Low	Prev
Sept	92.35	92.35	92.25	92.34
Dec	91.89	91.89	91.91	91.88
March	—	—	—	91.45
June	—	—	—	91.09

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Latest	High	Low	Prev
Sept	92.03	92.06	91.94	92.04
Dec	91.57	91.59	91.47	91.57
March	91.10	91.15	91.06	91.14
June	—	90.79	90.69	90.78
Sept	90.43	90.47	90.40	90.47
Dec	90.19	90.18	90.13	90.18
March	89.97	—	89.97	89.91
June	89.62	—	89.62	89.68

STERLING (IMM) $s per £

	Latest	High	Low	Prev
Sept	1.2885	1.2915	1.2876	1.2900
Dec	1.2780	1.2800	1.2765	1.2780
March	1.2696	1.2720	1.2675	1.2685
June	1.2660	1.2660	—	1.2660
Sept	—	—	—	1.2505

GNMA (CBT) 8% $100,000
32nds of 100%

	Latest	High	Low	Prev
Sept	75-28	75-29	75-22	76-02
Dec	75-01	75-01	75-00	75-07
March	—	—	—	—
June	—	—	—	74-04
Sept	—	—	—	73-24

MONEY MARKETS

Firmer tone in London

Interest rates had a slightly firmer tone on the London money market yesterday ahead of the meeting of ministers from the Organisation of Petroleum Exporting Countries, in Vienna on Friday and next week's UK money supply figures. Nervousness about oil prices, and the possible impact on sterling, was reinforced by rumours that the Soviet Union was selling oil at a discount, while next Tuesday's June money supply figures are not expected to be particularly encouraging, as far as any lingering hopes of lower clearing bank base rates are concerned. Three-month sterling interbank closed unchanged at 12⅞-12¾ per cent, and discount houses buying rates for three-month bank bills were steady at 12 per cent, but longer period rates rose by about 1/16 per cent.

UK clearing banks base lending rate 12½ per cent since June 12

The Bank of England forecast a money market shortage of £950m, but later changed this to £900m, and provided total help on the day of £824m.

An early round of assistance was offered, and at that time the authorities bought £56m bills outright, by way of £4m bank bills in band 1 (up to 14 days maturity) at 12⅞ per cent; £15m bank bills in band 2 (15-33 days) at 12¾ per cent; £22m bank bills in band 3 (34-63 days) at 12⅝ per cent; and £15m bank bills in band 4 (64-91 days) at 12 per cent.

Another £145m bills were purchased outright before lunch, through £23m bank bills in band 1 at 12⅞ per cent; £61m bank bills in band 2 at 12¾ per cent; £39m bank bills in band 3 at 12⅝ per cent; and £22m bank bills in band 4 at 12 per cent.

In the afternoon a further £498m bills were bought outright, by way of £10m banks bills in band 1 at 12⅞ per cent; £263m bank bills in band 2 at 12¾ per cent; £27m bank bills in band 3 at 12⅝ per cent; £49m Treasury bills in band 4 at 12 per cent; £40m local authority bills in band 4 at 12 per cent; and £109m bank bills in band 4 at 12 per cent.

The Bank of England also provided late assistance of £125m.

Bill maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £579m, with the unwinding of repurchase agreements absorbing £131m; Exchequer transactions £225m; and bank balances below target another £80m. These were partly offset by a fall in the note circulation adding £55m to liquidity.

MONEY RATES

July 2	Frankfurt	Paris	Zurich	Amst'dam	Tokyo	Milan	Brussels	Dublin
Overnight	0.40-5.50	10¼	2⅝-2⅝	0 1/16-0¾	0.03125	14¾-13⅛	8.35	11¾-12
One month	0.46-5.60	10 1/16-10 3/16	6¼-5⅝	0⅝-6¼	6.31870	14⅛-14½	8⅝-8⅞	11¾-12
Two months	5.43-5.60	10¼-10⅝	—	—	—	—	—	11¾-12
Three months	0.60-5.65	10¼-10⅝	5¼-5⅝	8⅝-0 1/16	0.28185	14⅝-18	8⅝-8⅞	11¾-12
Six months	5.55-5.70	10⅝-10½	—	6 1/16-8⅝	—	—	8¾-9	11¾-12
Lombard	0.0	—	—	—	—	—	—	—
Intervention	—	10⅛	—	6⅝	—	—	—	—

LONDON MONEY RATES — Discount Houses Deposit and Bill Rates

July 2 1985	Sterling Certificate of deposit	Interbank	Local Authority deposits	Company Deposits	Market Deposits	Treasury (Buy)	Treasury (Sell)	Eligible Bank (Buy)	Eligible Bank (Sell)	Fine Trade (Buy)
Overnight	—	12¾-13¼	12¾-12⅞	13-13⅛	12⅛-12¾	—	—	—	—	—
2 days notice	—	—	12¾	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	12¾-13¼	12¾	13	12⅝	—	—	—	—	—
One month	12⅞-12 11/16	12 11/16-12 13/16	12 11/16	12 13/16-13	12⅛	12 1/32	12 3/32	12 3/32	12 3/32	12 1/32
Two months	12⅝-12⅛	12⅝-12¾	12⅝	12⅞	12¼	12⅛	12	12⅛	12 1/32	12¾
Three months	12½-12⅝	12½-12⅝	12 11/16	12¾	12⅛	12	11 31/32	12	11 31/32	12⅝
Six months	12 1/16-12	12¼-12 7/16	12 7/16	—	—	—	—	11 15/32	11 15/32	12 3/32
Nine months	11 15/16-11 13/16	12 1/16-12¼	—	—	—	—	—	—	—	—
One year	11⅞-11¾	12-12⅛	11 13/16	—	—	—	—	—	—	—

	Local Auth. negotiable bonds	Local Authority Deposits	Finance House Deposits	$ Cert of Deposits	SDR Linked Deposits	ECU Linked Deposits
One month	13⅛-13	—	12 11/16	7.5-7.8	7¾-8	8¼-8⅝
Two months	13-12⅝	—	12 11/16	7.5-7.85	7¾-8	8¼-8⅝
Three months	12⅞-12⅝	—	12 11/16	7.5-7.05	7 13/16-8 1/16	8¼-8⅝
Six months	12⅝-12⅜	—	12 11/16	7.7-7.8	7⅞-8⅛	9 1/16-9 5/16
Nine months	12½-12¼	—	12 11/16	7.85-8.05	—	—
One year	12⅝-12⅜	11¾	12 11/16	8.1-8.2	8⅛-8⅜	9 1/16-9 5/16
Two years	—	11⅝	—	—	—	—
Three years	—	11⅝	—	—	—	—
Four years	—	11⅛	—	—	—	—
Five years	—	11⅛	—	—	—	—

ECGD Fixed Rate Finance IV: Average Rate of Interest period June 5 to July 2 (inclusive): 12.535 per cent. Local authority and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rate (published by the Finance Houses Association): 13 per cent from July 1, 1985. London and Scottish Clearing Bank Rates for lending 12½ per cent. Bank Deposit Rates for sums at seven days' notice 8.65-6.75 per cent (net). Treasury Bills: Average tender rate of discount 11.9858 per cent. Certificates of Tax Deposits (Series 8): Deposits £100,000 and over held under one month 12½ per cent; one-three months 12½ per cent; three-six months 12¼ per cent; six-nine months 12 per cent; nine-12 months 12 per cent. Under £10,000 11½ per cent from June 27. Deposits held under Series 5 12 per cent. The rate for all deposits withdrawn for cash 8 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. July 2)

3 months U.S. dollars	
bid 7 3/4	offer 7 7/8

6 months U.S. dollars	
bid 7 10/16	offer 8 1/16

The fixing rates are the arithmetic means, rounded to the nearest one sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	9½
Broker loan rate	8½-8¾
Fed funds	8
Fed funds at intervention	8

Treasury Bills

One month	6.60
Two month	6.825
Three month	6.93
Six month	7.03
One year	7.17

Treasury Bonds

Two year	99 11/32
Three year	102 11/32
Four year	100 11/32
Five year	101 1/32
Seven year	101 11/32
10 year	106⅛
30 year	107 11/32

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LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1985 High	1985 Low	Stock	Price £	+ or −	Yield Int.	Yield Red.
99¼	97¾	Treas 8¼pcCnv '85	99¼		8.82	12.68
101	99	Exch. 12½pc 1985	99	−⅛	12.75	11.79
101	99	Exch 11½pc '86	99⅞		11.76	11.84
99½	97	Treas 10pcCnv 1986	98⅝	−⅛	10.14	11.80
94⅞	92¾	Treas 3pc 1986	94½		3.17	9.66
100	97½	Exch 10½pc Cv '86	99⅛	−⅛	10.59	11.50
101⅞	99¼	Treas 12pc 1986	100½		11.94	11.39

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

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COMMONWEALTH & AFRICAN LOANS

LOANS

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Public Board and Ind.

Financial

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AMERICANS

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O.F.S.

Diamond and Platinum

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Finance

Australians

Tins

Miscellaneous

1985 High	Low	Stock	Price	+ or −	Div Net	Cvr	Y'ld Gr's
55	37	Anglo-Dominion	39		—	—	—
48	33	♥Anglo Utd Dev.	33		—	—	—
350	130	♥Centennial Min'ls	142		—	—	—
120	70	♥Colby Res. Corp.	85		—	—	—
550	450	Cons. Murch 10c.	475		†Q100c	1.4	8.3
40	28	✦Ennex Int. I 10p	28		—	—	—
215	125	Hampton Areas 10p	125	−2	3.75	◆	4.1
240	140	♥Hydewood Res.	145		—	—	—
£22¼	£17⅞	Homestake Mining $1.	£17⅞	−⅛	Q20c	—	1.1
310	190	♥McFinley Red Lake	210	+15	—	—	—
300	195	♥Munro Explorations	250		—	—	—
55	23	♥New Sabina Res C$1	45		—	—	—
375	255	Northgate C$1	255	−15	—	—	—
685	550	RTZ	555	+3	20.0	2.7	5.1
£145¼	£122	Do 9½pcLn 95-2000	£122½	+½	Q9½%	14.0	0.1
£14¼	£10	♥Tara Expln $1	£10¼		—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a)
- ✦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- ‡ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ✦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ● Same interim; reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ∥ No par value

B.Fr. Belgian Francs. Fr. French Francs. ◆◆ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or official estimates for 1984. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. R Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish Stocks, the latter being quoted in Irish currency.

Albany Inv 20p	100	...	Arnott	165	
Craig & Rose £1	700xd	...	CPI Hldgs.	50	−5
Finlay Pkg. 5p	61	.....	Carroll Inds.	128xd	+1
Higsons Brew	228	−5	Dublin Gas	53	.....
Holt (Jos) 25p	730	−10	Hall (R. & H.)	55	
IoM Stm. £1	80	...	Heiton Hldgs.	13	
IRISH			Irish Ropes	46	
Fund 11¾% 1988	£98¼	+⅛	Jacob (W. & R.)	80	
Nat. 9¾% 84/89	£93xd	+⅛	Unidare	87	+2
Fin. 13% 97/02	£104¼	+1¼			

"Recent Issues" and "Rights" Page 26

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LONDON STOCK EXCHANGE

MARKET REPORT

Extension of equity market recovery falters after GEC preliminary statement

Account Dealing Dates
Option

*First Dealings	Declarations	Last Dealings	Account Day
June 17	June 27	June 28	July 8
July 1	July 11	July 12	July 22
July 15	July 25	July 26	Aug 5

* "New-time" dealings may take place from 9.30 am two business days earlier.

Another good recovery movement in London equities was reversed an hour or so before the official close yesterday following the receipt of GEC's preliminary statement. The group's annual profits although higher than the previous year, were mildly disappointing at £725m and came as an anti-climax to an electrical sector desperately seeking good tidings after a series of recent disasters.

Sentiment throughout equities was affected as a whole and the FT Ordinary share index surrendered much of an eight-point gain to close only 1.8 up on the session at 954.3.

Some electricals gave ground but marginal falls were soon regained and GEC, after rising to 170p ahead of the figures and falling to 162p afterwards, closed unchanged on the session at 166p. Remaining electricals, with the exception of Racal Electronics, settled slightly firmer for choice.

Equity investors earlier had derived encouragement from Wall Street's impressive performance overnight; the Dow Jones index after being several points down rebounded late to an all-time high. Most leading shares benefited from the renewed buying until interest dried up on reports, later confirmed, about the outcome of English China Clays' issue of new stock. It was said that some 48 per cent of the issue had been left with the underwriters who, after a struggle, had successfully placed the stock. This boded ill for the much larger issue by Hanson Trust, whose new nil-paid shares consequently slipped to only ½p premium.

The 3.30 pm announcement of a change in the capital gains tax treatment of Gilt-edged securities and qualifying corporate bonds enlivened a lethargic market. Index-linked issues rose as much as ¾ and low-coupon conventional Gilts also attracted revived attention as attempts were made to switch from high-coupon stocks. Only a few swops were successful but selected low-coupon issues still managed late gains extending to ¼.

The two newcomers to the Unlisted Securities Market made quiet debuts. Goodhead Print touched 90p before settling at 85p compared with the placing price of 88p, while Leisure Investments, which were introduced, closed at 26p.

Clearers quietly firm

Clearing banks took Monday's technical recovery a stage further. The volume of trade left much to be desired, but Barclays ended the session 12 higher at 387p and NatWest 7 to the good at 662p. Lloyds firmed 5 to 387p as did Midland, to 380p. Elsewhere, Bank of Scotland put on 11 at 375p. Among merchant banks, J. Rothschild fell to a 1985 low of 92p before closing 5 lower on balance at 95p following a reappraisal of the annual results.

Composite Insurances made progress with Royals notable for a rise of 13 to 660p. General Accident, at 613p, and GRE, at 708p, appreciated 8 apiece, while Sun Alliance put on 7 to 455p. Speculative favourite, Commercial Union closed unaltered at 202p, after 208p.

The May beer production figures, which showed a 9.2 per cent decline on the same month last year, were nevertheless regarded as encouraging and prompted initial firmness among leading Breweries. Bass featured and touched 541p before closing only 3 higher on balance at 535p, while Allied-Lyons fared similarly to end a net penny cheaper at 216p, after 221p. In contrast, a generally favourable response to the preliminary figures lifted Scottish and Newcastle 3½ to 141½p. Elsewhere, nervous small selling clipped 5 from Arthur Bell, at 233p.

Building issues traded on a slightly firmer note. Among Construction companies, Taylor Woodrow new nil-paid shares were prominent at 30p, up 17. Costain Group, 400p, and Tarmac, 286p, edged up 4 apiece. On the other hand, Phoenix Timber eased 3 to 134p, following the result of the vote at the extraordinary general meeting.

Chemicals trended higher, but ICI closed below the best with a gain of 5 to 757p. Anchor improved a similar amount to 182p and Yorkshire were 4 dearer at 62p.

Dunhill buoyant

Leading Retailers were quietly irregular. Institutional investors, occasionally active since last Friday's tentative recovery, withdrew to the sidelines. Sentiment was also hindered by the downward revision of May retail sales, although a number of brokers displayed confidence over future consumer trends. Consequently, movements of note were usually confined to second-line issues. Dunhill were particularly outstanding, rising 25 to 320p in a lively business, while speculative support returned for Body Shop International, 70 better at 665p, and Moss Bros, 20 up at 460p. Home Charm rose 7 to 331p, after 335p, with the 7 per cent Convertible 9 points dearer at £192. Sporadic interest was also noted for Bentalls, 7 up at 92p, and for Harris Queensway, 8 to the good at 234p. On the company news front, Pepe spurted 7 to 83p following, as widely anticipated, better-than-forecast preliminary profits. Lincroft Kilgour hardened a few pence to 177p after increased mid-term earnings.

GEC's annual figures made little lasting impression on other leading Electricals. Racal, still depressed by the recent profits warning and talk that a large line of shares was overhanging the market, fell 6 more to a 1985 low of 132p. Thorn EMI, at 360p, gave back 7 of the previous day's gain of 12 following comment on the chairman's sudden departure; the annual figures are scheduled for Friday and the board have forecast reduced earnings but a maintained dividend. STC, after dipping to 134p rallied to finish a couple of pence dearer at 138p on speculation that either GEC or British Telecom could acquire ITT's 24 per cent stake in the company; BT hardened a penny to 170p. BICC, at 205p, and Plessey, at 124p, both closed unaltered at their overnight levels. Elsewhere, MicroFocus rallied 20 in a thin market to 195p, after 205p, and Sound Diffusion continued to reflect Press comment with a further rise of 4 to 64p, after 70p. Speculative buying lifted Crystalate 8 to 133p and Volex 10 to 188p.

Selective support was evident in the Engineering sector, but Vosper, down 35 at 190p on the annual loss and passing of the final dividend, were a noteworthy exception. In contrast, Delta put on 7 to 144p, while Bullough gained 16 to 228p and APV 10 to 275p. RHP edged up 4 to 89p. Among the leaders, Vickers were outstanding again and closed 9 higher at 287p.

Manufacturers led the way in Food. Tate and Lyle put on 6 to 468p and Rowntree Mackintosh 7 at 385p. Elsewhere, J. Sainsbury improved 4 to 308p as did Nurdin and Peacock, to 154p, while William Morrison gained 6 to 130p and Tesco 5 to 248p.

Hotels continued on a quietly firm note with THF a penny dearer at 132p. Norfolk Capital hardened a penny to 23p awaiting today's interim figures.

Reed Int. below best

Revived demand took Reed International up to 625 initially before sellers appeared and left a close of 19 up on the day at 612p. Metal Box were noteworthy for a rise of 12 to 460p following the annual report, but other leading miscellaneous industrial leaders closed with gains of only a few pence after showing rises of around 5 and sometimes more. Elsewhere, Channel Tunnel came to life with a rise of 20 to 170p after the release of outline plans by a major consortium of British and French companies for a channel tunnel. Applied Computer, still reflecting the company's agreement to subscribe for 30 per cent of the issued capital of Barsons Computers of Australia, advanced 10 more to 140p. Speculative interest lifted Macarthy Pharmaceuticals 6 more to 198p, while Appledore stood out with a gain of 22 to 302p, after 310. Low and Bonar moved up 13 to 243p in belated response to the sale of surplus property at Slough. Demand revived for F. H. Tomkins, 8 up at 188p, while Polly Peck improved afresh to end 7 higher at 240p. Other bright spots included De La Rue, 27 to the good at 880p, Reuters B, 9 higher at 324p, and Sale Tilney, 7 dearer at 215p.

Package tour operators fared well in the Leisure sector. Intasun rose 5 to 133p as buyers began to show increased interest ahead of next Tuesday's results, while Horizon closed 6 up at 112p. Elsewhere, Rex Williams Leisure softened a penny to 15½p following the half-year figures.

Motors encountered a few buyers. Jaguar shook aside recent concern over some ignition systems and rallied 5 to 267p, while Lucas Industries rose a similar amount to 315p following a vendor placing to finance the acquisition of Duralith, a U.S. manufacturer of custom graphic control panels and assemblies.

Wight Collins Rutherford Scott, the advertising agency, advanced 20 to 353p amid vague takeover rumours. A number of American concerns were suggested as possible suitors, as were Saatchi and Saatchi, 20 up at 690p.

Some firm features emerged in Properties. Regentcrest rose 3½ to 29½p on news of the agreed bid from Messrs R. and D. Richardson, while Mountleigh gained 20 to 385p, after 390p, in response to the preliminary results and acquisition details. Connells put on 8 to 123p following the purchase of Collier and Madge, a firm of chartered surveyors and property consultants. Bairstow Eves improved 4 to 82p, while similar improvements were seen in Percy Bilton, 216p, and Estates and General, 101p. C. H. Beazer added 8 at 372p. Among leading issues, Land Securities were 5 to the good at 289p and MEPC 3 dearer at 273p.

Further consideration of the preliminary figures and proposed enfranchisement lifted Illingworth Morris 2 more to 88p with the A shares another 3 to the good at 82p. Courtaulds also hardened 2, at 143p, but other Textiles gave ground in generally subdued trading. Dawson International, 258p, and Coats Patons, 161p, eased a couple of pence apiece, as did Textured Jersey at 94p, the last-mentioned despite an investment recommendation from brokers de Zoete and Bevan.

Lasmo advance

Oils took Monday's technical rally a stage further. The leaders continued to edge higher in the run-up to Friday's full meeting of Opec oil ministers in Geneva. Shell continued to attract U.S. support and put on 5 more to 710p—a two-day gain of 13—while BP touched 528p prior to closing unchanged on balance at 525p. Britoil hardened a few pence to 215p, after 218p while LASMO were a strong market and finally 13 firmer at 258p, after 260p, still reflecting the recent oil drilling success in Australia. Onshore exploration and production issues were particularly favoured among the secondary oils.

Gold down again

The latest bout of pressure on precious metals took bullion down to over a three-months low of $309 for a loss of $4.25 and prompted renewed weakness throughout mining markets.

South African Golds opened on a reasonably steady note, helped by modest but persistent Continental buying of the leaders. However, the subsequent decline in bullion quickly put paid to the overseas support and the sector gave ground across the board to close at or around the day's lowest levels.

The Gold Mines index posted a further 13.9 fall to 406.9, extending its decline over the past five sessions to one of 38.6.

Many of the top quality issues fell away to their lowest levels this year, including Randfontein, £1¼ down at £73¼, Vaal Reefs, £2¼ off at £66, Winkelhaak, £1¼ lower at £19¾ and Western Holdings, which fell almost a point to £22½.

South African Financials and Platinums suffered along with Golds. Impala Platinum proved especially vulnerable and gave up 18 to 712p while Lydenburg dropped 10 to 510p and Rustenburg a few pence to 607p. Notable weak spots in the financials group included "Johnnies," a point lower at £84, and Gold Fields of South Africa and Gencor which eased ½ apiece at £12¼ and £11¼ respectively.

Total contracts struck in Traded Options amounted to only 5,808—well short of last week's volume. Much of the session's activity centred on GEC which announced full-year figures and attracted 431 calls, 297 in the July 180's, and 465 puts, 373 in the July 160's.

FINANCIAL TIMES STOCK INDICES

	July 2	July 1	June 28	June 27	June 20	June 23	year ago
Government Secs.	81.06	81.92	81.70	81.85	81.81	81.77	75.00
Fixed Interest	80.74	80.07	80.38	86.42	80.37	83.33	82.31
Ordinary	954.3	839.3	938.6	933.9	930.5	952.1	821.3
Gold Mines	406.9	420.8	425.1	432.2	430.0	445.5	603.3
Ord. Div. Yield	4.83	4.87	4.83	4.23	4.93	4.88	4.83
Earnings, Yld. % (full)	18.17	†12.20	†12.36	12.41	12.38	12.17	11.02
P/E Ratio (net) (*)	10.04	10.01	9.88	9.84	9.88	10.04	10.71
Total bargains (Est.	21,092	28,190	23,028	21,256	21,762	21,706	17,530
Equity turnover £m.	—	888.20	370.20	400.58	374.96	385.18	183.98
Equity bargains	—	20,212	20,165	18,762	17,707	00,803	12,461
Shares traded (ml)	—	184.1	211.8	203.5	209.3	202.0	120.7

10 am 958.1. 11 am 960.7. Noon 960.7. 1 pm 960.3
2 pm 960.3. 3 pm 954.5.
Basis 100 Govt. Secs. 15/2/28. Fixed Int. 1928. Ordinary 1/7/35. Gold Mines 12/10/55. SE Activity 1974.
Latest Index 01-246 8026.
*Nil = 9.72.
† Corrected

HIGHS AND LOWS

	1985 High	1985 Low	Since Compilat'n High	Since Compilat'n Low
Govt. Secs.	82.17 (18/6)	78.02 (28/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Int.	88.74 (2/7)	82.17 (28/1)	150.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1024.5 (22/1)	228.7 (3/1)	1024.5 (22/1/85)	42.4 (26/6/40)
Gold Mines	533.2 (15/4)	403.9 (2/7)	734.7 (15/2/83)	43.5 (26/10/71)

S.E. ACTIVITY INDICES

	July 1	June 28
Daily Gilt Edged Bargains	119.3	113.4
Equities Bargains	131.0	130.7
Equities Value	582.5	764.5
5 day Average Gilt Edged Bargains	118.7	118.0
Equities Bargains	126.7	133.9
Equities Value	735.4	713.9

ACTIVE STOCKS

Above average activity was noted in the following stocks yesterday.

Stock	Closing price	Day's change
Body Shop Intl.	665	+70
Bowater Inds	259	+5
Commercial Union	202	—
Dunhill	320	+25
GEC	166	—
GRE	708	+8
Legal & General	684	+4
Macarthys Pharm.	198	+8
Phoenix Timber	134	−3
Reed Intl.	612	+19
STC	138	+2
Salvesen (C.)	118	—

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	36	15	56
Corpns. Dom. and Foreign Bonds	7	8	67
Industrials	522	146	794
Financial and Props.	203	50	300
Oils	41	11	75
Plantations	2	2	14
Mines	18	80	81
Others	101	25	119
Totals	930	333	1,506

NEW HIGHS AND LOWS FOR 1985

NEW HIGHS (27)

BRITISH FUNDS (4)
Treas. 3½pc '84-85; Treas. 14½pc 1994; Exchqr. 12½pc 1982; Exchqr. 12½pc 1994
AMERICANS (1)
Gt. Am. First Svgs. Bk.
BREWERS (1)
Buckley's Brewery
BUILDINGS (1)
Sindall (Wm.)
CHEMICALS (2)
Delmar; Mercado
STORES (1)
Ratners
ELECTRICALS (1)
Volex
ENGINEERING (1)
Wagon Industrial
INDUSTRIALS (6)
Cape Inds.; Macarthys Pharm.; Farguson Industrial; Parkfield; Fothergill Harvey; Wigney
MOTORS (1)
Bramall (C. D.)
NEWSPAPERS (1)
Independent
PROPERTY (5)
Estates & General; Regentcrest; McInerney; Warnford Inv.; Mountleigh
TEXTILES (2)
Courtaulds 7pc Pfd. 1982-87; Illingworth Morris

NEW LOWS (81)

BANKS (1)
Rothschild (J.)
BREWERS (2)
Merrydown Wine; Riddle (G.)
BUILDINGS (1)
Tysons (Contractors)
CHEMICALS (1)
Ellis & Everard
ELECTRICALS (12)
A.B. Electronic; Murray Tech. Invs.; A. & G. Sec. Alarms; Norbain Electronics; ASEA AB A; Pericom; Do. B; Racal Electronics; Audiotronic; Renishaw; Micro Bus. Systs.; Wordplex
ENGINEERING (1)
Smith Whitworth
INDUSTRIALS (7)
Aeronite; Sycamore; Baynes (Charles); Vinten; Robertson Research; Oy Wartsila AB
LEISURE (3)
Grampian TV A; Williams (Rex); Juliana's
MOTORS (1)
BTS
PAPER (1)
Watmoughs
PROPERTY (1)
Markheath
TRUSTS (13)
Anglo Amer. Sec.; Mid Wynd Inv. Tst.; Ashdown Inv.; Plantation Tst. Wts.; Baillie Gifford Jap.; Shires Inv. 11pc Cnv. Ln 2003-04; F. & C. Alliance Inv.; Biotechnology Invs.; GBC Warrants; F. & C. Enterprise; Gartmore Intl. & Fin. Trust; Haw Par; Japan Assets Wts.
OILS (6)
Aberdeen Am. Pet.; Falcon Resources; Churchill Resources; Magellan Petroleum; Cons. Intl. Pet. Cpn.; Petrofina
PLANTATIONS (1)
Kuala Kepong
MINES (35)

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price p	+ or −
[illegible]							

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price £	+ or −
[illegible]							

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renunc. date	1985 High	1985 Low	Stock	Closing price p	+ or −
[illegible]							
370	Nil	—	30pm	12pm	Taylor Woodrow	30pm	+17
10	F.P.	12/7	40½	27	"The Times" Veneer	34	
150	F.P.	12/7	211	173	Tomkins (F.H.) 5p	189	+8
600	Nil	—	90pm	43pm	Union Discount £1	80pm	+2
2	F.P.	82.7	3½	2¼	Willaire Systems	3	

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. p Assumed dividend and yield. u Forecast dividend cover based on previous year's earnings. p Pence unless otherwise indicated. ‡ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment letters or fully paid. ‖‖ Introduction. ✱ Unlisted Securities Market. § Placing price. †† Dealt in under Rule 535 (3).

OPTIONS

First Dealings	Last Dealings	Last Declaration	For Settlement
June 24	July 5	Sept 26	Oct 7
July 8	July 19	Oct 10	Oct 21
July 22	Aug 2	Oct 24	Nov 4

For rate indications see end of Share Information Service

Call options were taken out in British Telecom, Cray Electronics, Raybeck, Bristol Channel Ship Repairers, Southwest Resources, Brengreen, Habit Precision Engineers, Falcon Resources, Johnson and Firth Brown, Low and Bonar, Flogas, RHM, STC, Charterhall, Debenhams, Mount Charlotte, Brunswick, Dufay Bitumastic and Lee Cooper. No puts were reported, but a double was transacted in Parkfield.

MONDAY'S ACTIVE STOCKS

Based on bargains recorded in Stock Exchange Official List.

Stock	No. of changes	Mon. close	Day's change
Salvesen (C.)	33	118	—
Thorn EMI	21	367	+12
GUS A	15	760	+15
ICI	15	752	+12
Polypipe	16	†10	—
Glaxo	14	£12⅛	—
Hanson Trust	14	2pm	+0½
Beecham	13	320	+2
Abbey Life	12	228	+2
BSR Intl.	12	58	+8
Sears	12	93	+4
Shell Transport	12	705	+8
Boots	11	186	+3
Brit. Telecom	11	169xd	—

† Nil-paid.

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

EQUITY GROUPS & SUB-SECTIONS	Tues July 2 1985: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (ACT at 30%)	Est. P/E Ratio (Net)	xd adj. 1985 to date	Mon July 1 Index No.	Fri June 28 Index No.	Thurs June 27 Index No.	Year ago (approx.) Index No.
[illegible]										

FIXED INTEREST

PRICE INDICES	Tues July 2	Day's change %	Mon July 1	xd adj. today	xd adj. 1985 to date
[illegible]					

AVERAGE GROSS REDEMPTION YIELDS	Tues July 2	Mon July 1	Year ago (approx.)
[illegible]			

†Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London, EC4P 4BY, price 15p, by post 28p.
RECLASSIFICATION: Holt Lloyd International (9) to (42).

EUROPEAN OPTIONS EXCHANGE

Series		Aug. Vol.	Aug. Last	Nov. Vol.	Nov. Last	Feb. Vol.	Feb. Last	Stock
GOLD C	$300	6	17.30	—	—	—	—	$308.50
GOLD C	$320	42	5	11	14	—	—	"
GOLD C	$340	17	1.80	4	8A	9	16.50	"
GOLD C	$360	—	—	27	4.30	—	—	"
[illegible]								

TOTAL VOLUME IN CONTRACTS: 20,007
A=Ask B=Bid C=Call P=Put

LONDON TRADED OPTIONS

Option		Calls Jly.	Calls Oct.	Calls Jan.	Puts Jly.	Puts Oct.	Puts Jan.
B.P. (*588)	460	73	90	—	3	7	—
	500	35	50	65	5	18	33
	550	7	23	37	28	38	46
	600	1	10	20	77	80	86
[illegible]							

Option		Calls Aug.	Calls Nov.	Calls Feb.	Puts Aug.	Puts Nov.	Puts Feb.
Lonrho (*167)	160	12	18	21	4	6½	2
	180	3	7½	16	16	12	81
	800	1	—	—	33	—	—
P. & O. (*348)	300	55	—	—	2	—	—
[illegible]							

July 2 Total contracts 5,808. Calls 3,656. Puts 2,152
*Underlying security price

WORLD STOCK MARKETS

AUSTRIA

July 2	Price Sch %	+ or —
Creditanstalt	375	..
Goesscr.	520	—4
Interunfell	1,920	—5
Laendorbank	365	...
Perlmooser	600	..
Steyr-Daimler	179	-2
Veitscher Mag	585	+25

BELGIUM/LUXEMBOURG

July 2	Price Frs.	+ or —
B.B.L.	2,015	.....
Banq. Gen Lux	6,300	....
Banq. Int. A. Lux	6,020	..
Bekaert B.	5,900	+20
Ciment CBR	2,545	+35
Cockerill	206	.....
Delhaize	9,190	.....
EBES	2,950	..
Electrobel.	8,650	-120
Fabrique Nat.	2,000	+5
GB Inno BM	3,675	..
GBL (Brux).	1,880	-15
Gevaert	5,855	-45
Hoboken	5,650	—70
Intercom	8,170	+20
Kredietbank	8,830	+30
Pan Hldgs.	10,600	+100
Petrofina	5,650	—50
Royale Belge	18,000	+100
Soc. Gen. Banq	8,570	..
Soc. Gen. Belge	1,850	+8
Sofina	7,270	+50
Solvay	4,300	+10
Stanwick Intl.	1,500	..
Tractionel	3,760	..
UCB	6,250	
Wagon Lits	3,860	..

DENMARK

[illegible]

GERMANY

July 2	Price Dm.	+ or —
AEG-Telef.	140.3	-2.1
Allianz Vers	1505	-21
BASF	220.9	-1.9
Bayer	227.9	-1
Bayer-Hypo	347	-5
Bayer-Verein	390	-18
BHF-Bank	348	—10
BMW	443	+3.5
Brown Boveri	235	-0.5
Commerzbank	220.5	+2.7
Cont'l. Gummi	162.5	-5.5
Daimler-Benz	959	-2.5
Degussa	375	-5
D'sche Babcock	155	-1.5
Deutsche Bank	580	-0.5
Dresdner Bank	259.5	-2.5
GHH	170.2	-0.3
Hochtief	530	+5
Hoechst	227.5	—0.5
Hoesch Werke	110	-1
Holzmann (P.)	458	-4
Horten	185	+2
Hussel	286	-4
Karstadt	233	+1.5
Kaufhof	248	-3.5
KHD	273	-6
Kloeckner	69.8	-0.8
Linde	642	1
Lufthansa	803	-5
MAN	171	-6
Mannesmann	196	-5
Mercedes Hld.	380	-7
Metallgesel	281	-1
Muench Rueck.	1,860	—82
Nixdorf	584	-13
Porsche	1,510	—10
Preussag	896	-5
Rhein West Elect	183.5	..
Rosenthal	264	-1
Schering	502	-5
Siemens	578.5	+10
Thyssen	114.5	-2.2
Varta	250	-4
Veba	821.5	-0.5

NORWAY, SPAIN, SWEDEN, SWITZERLAND, ITALY, NETHERLANDS, FRANCE, AUSTRALIA, HONG KONG, JAPAN, SINGAPORE, SOUTH AFRICA: [illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

CANADA

TORONTO
Prices at 2.30pm July 2

[illegible]

Indices

NEW YORK-DOW JONES

	July 2	July 1	June 28	June 27	June 26	June 25	1985 High	1985 Low	Since Compilation High	Since Compilation Low
Industrials	1,337.48*	1,334.14	1,335.46	1,332.21	1,323.80	1,323.03	1337.14 (1/7)	1184.96 (4/1)	1357.14 (1/7/85)	41.22 (2/7/32)
Transport	675.85*	672.64	664.08	663.04	656.48	650.93	672.64 (1/7)	553.03 (4/1)	672.64 (1/7/85)	12.32 (8/7/32)
Utilities	165.42*	165.37	164.85	164.85	163.83	164.50	166.85 (21/6)	146.54 (4/1)	168.85 (21/5/85)	18.5 (25/4/42)
Trading vol		96m	105.2m	107.8m	94.1m	115.6m	—	—	—	—

	June 28	June 21	June 14	Year Ago (Approx)
Ind Div Yield %	4.59	4.63	4.71	5.80

STANDARD AND POORS

	July 2	July 1	June 28	June 27	June 26	June 25	1985 High	1985 Low	Since Compilation High	Since Compilation Low
Industrials	212.28*	212.47	211.82	211.27	209.87	209.44	212.47 (1/7)	128.24 (4/1)	212.47 (1/7/85)	3.62 (30/6/32)
Composite	192.45*	192.43	191.85	191.23	190.86	189.78	192.43 (1/7)	163.68 (4/1)	192.43 (1/7/85)	4.40 (1/6/32)

	June 19	June 12	June 5	Year Ago (Approx)
Ind div yield %	3.80	3.77	3.71	4.16
Ind. P/E Ratio	11.65	11.54	11.78	10.96
Long Gov Bond Yield	10.22	10.31	10.05	13.51

N.Y.S.E. ALL COMMON

July 2	July 1	June 28	June 27	1985 High	1985 Low
111.48*	111.45	111.11	110.72	111.45 (1/7)	94.60 (4/1)

RISES AND FALLS

	July 1	June 28	June 27
Issues traded	1,987	1,993	1,978
Rises	890	854	940
Falls	878	805	573
Unchanged	431	434	466

NEW YORK ACTIVE STOCKS

	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Phil. Pet. WI	1,173,400	11⅞	+ ⅛	IBM	885,600	124⅛	−1¼

[illegible]

TORONTO	July 2	July 1	June 28	June 27	1985 High	1985 Low
Metals & Minls	1,886.4*	closed	1,887.7	1,898.5	2190.7 (13/2)	1896.0 (4/1)
Composite	2,716.1*	closed	2,712.5	2,703.6	2766.1 (5/6)	2348.5 (8/1)
MONTREAL Portfolio	133.87*	closed	132.32	131.75	135.56 (5/6)	117.80 (4/1)

* Indicates pre-close figure

AUSTRALIA, AUSTRIA, BELGIUM, DENMARK, FRANCE, GERMANY, HONG KONG, ITALY, JAPAN, NETHERLANDS, NORWAY, SINGAPORE, SOUTH AFRICA, SPAIN, SWEDEN, SWITZERLAND, WORLD: [illegible]

OVER-THE-COUNTER
Nasdaq national market, 2.30pm prices

Continued from Page 33

[illegible]

LONDON
Chief price changes (in pence unless otherwise indicated)

RISES		
Tr. 2½% IL 2009	£ 99	+¾
Appledore (A&P)	302	+22
Applied Com	140	+10
Baker Perkins	177	+8
Barclays	387	+12
Bentalls	92	+7
Body Shop Int	665	+70
Carless Capel	165	+10
Channel Tunnel	170	+20
Connells Estate	123	+8
Dunhill	320	+25
Horizon Travel	112	+8
Intasun Leisure	133	+5
LASMO	258	+13
Low & Bonar	243	+13
Lucas Inds	315	+5
Metal Box	460	+12
Micro Focus	195	+20
Mountleigh	385	+20
Pepe	83	+7
Reed Intl.	612	+19
Regentcrest	29½	+3½
Rowntree Mackin	385	+7
Tate & Lyle	468	+8
Vickers	287	+9
Wight Collins	353	+20

FALLS		
Racal Elects	132	−6
Rothschild (J)	95	−5
Thorn EMI	380	−7
Winkelhaak	£19½	−½

Prices at 3pm, July 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev Close
23⅛	16	AAR	.48	2.5	15	212	19½	19	19¼	+¼
17⅞	9⅜	AGS			13	394	16	15¾	15¾	+⅝
16½	9⅝	AMCA				4	10¾	10¾	10¾	−⅛
21½	13¾	AMF	.30	2.1	50	3013	18¾	18½	18½	
48⅝	24¼	AMR			11	4898	u48⅞	49¼	49¼	−⅛
25⅛	18⅝	AMR pf2.18		9.1		415	22½	22¼	25½	+⅛
61⅛	44⅝	ASA		2.4	2	318	48⅛	41½	47⅞	
27	12½	AVX	.32	2.4	11	30	13⅝	13⅜	13½	+⅜
28⅛	18	AZP	2.72	9.8	6	1092	27⅞	27¾	27⅞	+⅛
58⅝	36¾	AbtLab 1.48		2.4	17	1205	58	57⅝	57⅝	−⅜
25⅞	18⅝	AccoWd 30		2.4	16	18	21⅝	20¾	20¾	−⅛
24¾	12½	AcmeC .40		2.4		776	11¼	18⅛	18⅞	
10½	7⅝	AcmeE .32b		4.1	10	26	1⅞	7¾	7⅞	
17⅝	15	AdaEx 1.92e		11		90	u17¾	17½	17¾	+⅛
20	11⅛	AdmMl .32		1.8	7	5	18	17¾	17¾	
10½	8⅝	AdvSys .53t		4.9	17	74	11¼	11	11	−⅛
41⅞	22⅛	AMD			12	3833	27½	26⅞	27⅛	
12¾	6⅛	Advest .12		1.4		235	8⅝	8⅜	8½	
14⅝	9	Aerflex			13	80	14¼	14	14⅛	
47	27¼	AetnLf 2.64		5.7	34	3971	46½	45¾	46½	+½
57⅜	52⅞	AetL pf5.79e		11		171	55¼	50	55	−¼
37⅜	17⅞	Ahmns 1.20		3.3	15	1113	38⅝	36	36⅜	
3⅜	2½	Aileen				11	2⅞	2⅞	2⅞	
56¼	38⅜	AirPrd 1.20		2.2	12	302	55⅛	54⅛	55	−⅛
24¾	19	AirbFrt .80		3.0	11	72	20	19⅝	20	+⅛
2	1	AlMoa n				81	1¾	1⅝	1⅝	
28¼	21	AlaP pf2.92e		11.		131	27¾	27¾	27¾	
33⅜	27¼	AlaP pfA3.32		12.		3	32¼	32	32¼	+¼
8⅛	6¼	AlaP dpf.87		11.		68	7⅞	7¾	7⅞	+⅛
82	91⅛	AlaP pf 9		11		z50	80	80	80	
103¼	88	AlaP pf 11		11.		z188	101	101	101	−⅛
14	57½	AlaP pf 8.16		11		z50	72	72	12	−1

Continued on Page 33

NYSE COMPOSITE PRICES

Prices at 3pm, July 2

Continued from Page 32

[illegible]

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

AMEX COMPOSITE PRICES

Prices at 3pm, July 2

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 2.30pm prices

[illegible]

Continued on Page 31

FINANCIAL TIMES
WORLD STOCK MARKETS

WALL STREET

Pre-holiday caution takes hold

THE LATEST federal data on the U.S. economy helped to keep stock prices firm on Wall Street yesterday although investors remained cautious ahead of tomorrow's July 4 holiday, *writes Terry Byland in New York.*

Bond prices also moved up despite continued technical demand for overnight federal funds, which kept the rate well above recent levels.

At 3pm the Dow Jones industrial average was down 0.45 at 1,336.69.

Opinions on the progress of the U.S. economy continued to vary widely. Bonds gained half a point on reports that Mr Beryl Sprinkel, a top White House aide, had disclosed that the Administration is trimming its earlier forecast of 3.9 per cent economic growth this year.

Later, the Commerce Department announced gains of 2.1 per cent in factory orders and 9.7 per cent in single family home sales in May – both above Wall Street expectations, and apparently indicating a rebounding economy.

Stock portfolio managers are now poised for the flow of corporate results for the second quarter of the year, due soon. While the manufacturing and agribusiness industries are expected to show a continued slowdown, some other sectors are back in investment favour.

Bank stocks did well, on expectations that second-quarter earnings would reflect the fall in the bank's funding costs in recent weeks. Bankers Trust jumped $1⅞ to $72⅞, Chase Manhattan $1⅛ to $62 and Citicorp $⅞ to $50⅞.

The hints of a tougher U.S. line in the Middle East following the hostage crisis brought further gains in defence stocks. General Dynamics gained $1½ to $77, Lockheed $¾ to $53⅜ and McDonnell Douglas $½ to $78⅛.

Stock in Exxon rallied after the board said it would appeal against the court ruling on oil price charges which could cost the oil company $2bn. The rest of the oil sector was mixed, with Atlantic Richfield $¾ down at $59½ and Standard Oil of Ohio, the British Petroleum offshoot, unchanged at $48⅜.

Chemical stocks too were firmer. Monsanto added $⅞ to $49, Dow Chemical $⅛ to $35⅝ and Du Pont $¼ to $59¾. But pharmaceuticals looked irregular as the dollar swayed on the foreign exchange markets. Merck edged up $⅛ to $112½.

AT&T continued to drift down, shedding another $¼ to $24 as Wall Street weighed the implications of IBM's threat to the telephone market. At $125¾, IBM gained $½ while MCI Communications held steady at $10⅞.

Honeywell slipped $¼ to $61¾, but Digital Equipment, number two to IBM in data processing, jumped $1¼ to $96. Sperry, still looking for another bidder, added $½ to $53¼ after a block of 500,000 shares was traded at $52⅞.

Despite expectations that the industry will later this week disclose poor sales figures for June, General Motors gained $⅞ to $73⅞ and Ford $⅛ to $46. American Motors at $3⅞ added $⅛.

Hospital Corporation of America shed $⅜ to $48¼, with Justice Department clearance for the merger with American Hospital Supply (AHS) rendered academic in view of Baxter Travenol's bid for AHS. Baxter dipped $¼ to $15⅛ while American Hospital Supply added $⅜ to $40⅝ in heavy trading while awaiting the next move in the bid game.

Retail and consumer stocks eased back, with some of the recent takeover favourites losing ground. Borden fell $1¼ to $44⅞, but other losses were modest. General Foods at $79⅞ shed $¼, and Quaker Oats, another takeover stock, dipped $¼ to $52⅛.

Credit market rates were erratic, behind federal funds trading around 6 per cent, at which level the Fed tried to smooth the pre-holiday cash flows with overnight system repurchases. The funds edged up to 8¼ per cent despite the Fed's intervention.

Cash moved into Treasury bills ahead of the weekend. Bond prices moved up after a dull start but were not heavily traded.

KEY MARKET MONITORS

STOCK MARKET INDICES

	July 2	Previous	Year ago
NEW YORK			
DJ Industrials	1,336.69*	1,337.14	1,130.08
DJ Transport	675.68*	672.64	472.22
DJ Utilities	165.42*	165.37	124.47
S&P Composite	192.20*	192.43	153.20
LONDON			
FT Ord	954.3	952.5	821.3
FT-SE 100	1,250.8	1,246.8	1,047.6
FT-A All-share	604.24	600.52	491.87
FT-A 500	659.85	656.48	534.58
FT Gold mines	406.9	420.8	606.3
FT-A Long gilt	10.56	10.55	10.99
TOKYO			
Nikkei-Dow	12,913.75	12,919.03	10,410.9
Tokyo SE	1,028.20	1,028.90	793.25
AUSTRALIA			
All Ord.	860.5	860.2	659.0
Metals & Mins.	505.3	502.8	422.4
AUSTRIA			
Credit Aktien	102.62	102.59	53.89
BELGIUM			
Belgian SE	2,321.77	2,321.03	—
CANADA	July 2	Prev	Yr ago
Toronto			
Metals & Minls	1,885.4*	1,898.5	1,862.0
Composite	2,719.1*	2,703.6	2,220.6
Montreal			
Portfolio	133.07*	131.75	108.27
DENMARK			
SE	n/a	198.48	181.46
FRANCE			
CAC Gen	224.7	224.3	170.0
Ind. Tendance	127.6	127.4	90.25
WEST GERMANY			
FAZ-Aktien	485.09	480.79	347.18
Commerzbank	1,432.6	1,421.5	1,002.2
HONG KONG			
Hang Seng	1,591.33	1,570.60	868.63
ITALY			
Banca Comm.	334.93	331.50	208.41
NETHERLANDS			
ANP-CBS Gen	217.1	215.0	157.0
ANP-CBS Ind	181.3	179.4	126.4
NORWAY			
Oslo SE	325.76	327.20	227.69
SINGAPORE			
Straits Times	767.20	775.27	894.64
SOUTH AFRICA			
JSE Golds	–	966.3	952.7
JSE Industrials	–	977.9	936.3
SPAIN			
Madrid SE	108.28	107.62	88.50
SWEDEN			
J & P	1,321.82	1,330.68	1,493.62
SWITZERLAND			
Swiss Bank Ind	449.9	447.9	361.3
WORLD	July 1	Prev	Year ago
Capital Int'l	216.1	215.4	174.9

GOLD (per ounce)

	July 2	Prev
London	$309.00	$313.25
Zürich	$308.65	$314.00
Paris (fixing)	$312.63	$314.45
Luxembourg	$310.50	$315.25
New York (Aug)	$311.40	$310.80

* Latest available figure

CURRENCIES

	U.S. DOLLAR		STERLING	
(London)	July 2	Previous	July 2	Previous
$	–	–	1.3045	1.3055
DM	3.045	3.041	3.9725	3.9725
Yen	248.3	247.9	324.0	320.5
FFr	8.27	9.2625	12.085	12.075
SwFr	2.547	2.5485	3.3225	3.325
Guilder	3.4315	3.424	4.4775	4.475
Lira	1,941.0	1,935.5	2,530.0	2,528.0
BFr	61.3	61.1	80.0	79.75
C$	1.3575	1.357	1.77	1.7775

INTEREST RATES

	July 2	Prev
Euro-currencies (3-month offered rate)		
£	12⅛	12⅛
SwFr	5⁵⁄₁₆	5⁵⁄₁₆
DM	5½	5⁷⁄₁₆
FFr	10½	10⅜
FT London Interbank fixing (offered rate)		
3-month U.S.$	7⅞	7¹³⁄₁₆
6-month U.S.$	8¹⁄₁₆	7¹⁵⁄₁₆
U.S. Fed Funds	8¼	9
U.S. 3-month CDs	7.50	7.40
U.S. 3-month T-bills	6.95	6.85

U.S BONDS

Treasury		July 2* Price	July 2* Yield	Prev Price	Prev Yield
8½	1987	99²³⁄₃₂	8.67	99²³⁄₃₂	8.67
10⅝	1992	101¹⁴⁄₃₂	10.08	101¹⁸⁄₃₂	10.05
11¼	1995	106⁸⁄₃₂	10.22	106¹⁷⁄₃₂	10.18
11¼	2015	107⁶⁄₃₂	10.45	107¹⁰⁄₃₂	10.44

Corporate	July 2* Price	July 2* Yield	Prev Price	Prev Yield
AT & T				
10⅜ June 1990	101½	10.00	101½	10.00
3⅞ July 1990	80⅜	8.75	80⅜	8.75
8¾ May 2000	84⅞	10.90	84⅞	10.90
Xerox				
10⅞ March 1993	100⅛	10.60	100⅛	10.60
Diamond Shamrock				
10⅝ May 1993	100	10.65	100	10.65
Federated Dept Stores				
10⅜ May 2013	94¼	11.30	94¼	11.30
Abbot Lab				
11.80 Feb 2013	103⅜	11.35	103⅜	11.35
Alcoa				
12¼ Dec 2012	102⅞	11.90	102⅞	11.90

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
U.S. Treasury Bonds (CBT) 8% 32nds of 100%				
Sept	77–18	77–22	77–03	77–18
U.S. Treasury Bills (IMM) $1m points of 100%				
Sept	92.93	92.99	92.85	92.94
Certificates of Deposit (IMM) $1m points of 100%				
Sept	92.35	92.40	92.25	92.34
LONDON				
Three-month Eurodollar $1m points of 100%				
Sept	92.06	92.07	91.96	92.13
20-year Notional Gilt £50,000 32nds of 100%				
Sept	110–25	110–31	110–08	110–12

COMMODITIES

(London)	July 2	Prev
Silver (spot fixing)	456.45p	463.50p
Copper (cash)	£1,084.00	£1,077.25
Coffee (July)	£1,842.50	£1,857.00
Oil (spot Arabian light)	$26.65	$26.75

LONDON

GEC turns off attempt to recover

ANOTHER recovery attempt by London equities faltered an hour before the official close following disclosure of GEC's preliminary statement.

The group's annual profits, although improved, were mildly disappointing and came as an anti-climax to an electrical sector desperately seeking good tidings.

Sentiment throughout the equity market was affected, and the FT Ordinary index surrendered much of an early 8-point gain to close a net 1.6 up at 954.3.

GEC managed to finish steady at 162p, but Racal shed 6p to 132p and Thorn EMI dipped 7p to 360p.

The late announcement of changes to capital gains tax treatment of gilts and qualifying corporate bonds enlivened the government securities market. Index-linked issues rallied by up to ¾ while low coupon conventional gilts also attracted revived attention.

Chief price changes, Page 31; Details, Page 30; Share information service, Pages 28-29

AUSTRALIA

THE RETREAT in bullion prices did not adversely affect Sydney trading that took the All Ordinaries index 0.3 higher to 860.5.

Local investors, however, remained hesitant about the outcome of the Government-backed summit in Canberra to alter the tax law while the forthcoming federal budget continued to add to the unease.

Among resource issues, BHP fell 6 cents to A$6.26, CSR moved 1 cent higher to A$2.86 and CRA dropped 4 cents to A$5.94.

In golds, Central Norseman lost 20 cents to A$7.10, GMK 30 cents to A$8.10 and Poseidon 20 cents to A$3.15.

SOUTH AFRICA

FURTHER GROUND was surrendered by Johannesburg gold shares as the bullion price weakened.

An end to strikes at Gencor mines failed to reverse the mood, and most mining issues finished cheaper. Vaal Reefs took one of the sharpest falls – R6 to R169 – while more modest setbacks were recorded by Buffles, 50 cents down at R70.50, and Free State Geduld, R2 off at R46.50.

Gencor led mining financials lower with a 40-cent drop to R29.80 and Anglo American Corporation eased 15 cents to R26.10. Industrial leader Barlow Rand continued to weaken with a further loss of 30 cents to R11.30.

HONG KONG

STRONG institutional buying of blue chips and short covering brought Hong Kong trading back to life with a 20.73 point gain in the Hang Seng index to 1,591.33.

Property issues featured, with Cheung Kong 20 cents up at HK$16.40, Hongkong and Kowloon Wharf 10 cents higher at HK$6.15 although Hongkong Land was unchanged at HK$5.65.

Other leading shares to finish with gains were Hongkong Bank 5 cents ahead at HK$7.80, Hongkong Electric 10 cents firmer at HK$8.30 and Jardine Matheson 20 cents up at HK$11.40.

SINGAPORE

PERSISTENT selling pressure drove Singapore shares lower for the third consecutive day and took the Straits Times industrial index 8.07 down to 787.20.

Sigma, most actively traded, held steady at S$2.23 as UOB, also active, shed 8 cents to S$3.82. Elsewhere, Fraser & Neave dipped 15 cents to S$5.05, Genting weakened 10 cents to S$5.80 and Pan Electric dipped 3 cents to S$2.22. Hotels, properties and commodities also lost ground.

CANADA

INDUSTRIALS and financials found isolated support in thin Toronto trading.

Moore Corporation traded C$1⅛ higher to C$28⅜, while Canadian Pacific gained C$⅛ to C$19⅝ and Domtar at C$18½ was C$⅛ firmer. Royal Trustco led the financials with a C$½ rise to C$21⅞ and Royal Bank edged C$¼ up to C$30¼.

Banks, industrials and utilities advanced in Montreal.

EUROPE

International buying gives inspiration

FOREIGN buying provided the inspiration for a resurgence of domestic demand on several European bourses yesterday, triggering an acceleration in share price increases.

Wall Street's overnight climb to a new peak, coupled with renewed hope of lower domestic interest rates, were again the factors behind the advance.

Swiss and Dutch interest centred on banking and financial issues, which overflowed into other sectors to nudge leading indices to records, while Frankfurt experienced a broad-based revival.

The Commerzbank index added 11.1 to 1,432.8, marginally below the record high set last week.

International investor interest was particularly marked among banking and car issues while chemicals were also keenly sought.

Commerzbank was the most actively traded bank, firming DM 2.70 to DM 220.50, followed by Dresdner, up DM 2.50 to DM 259.50, and Deutsche Bank, 50 pfg higher at DM 580.

VW registered the largest gain among the car makers, adding DM 11 to DM 333.50, while BMW rose DM 3.50 to DM 442 and Daimler DM 7.50 to DM 859.

Among chemical stocks, BASF ended at DM 220.90, up DM 1.90, Bayer firmed DM 1 to DM 227.80 and Hoechst was 50 pfg higher at DM 227.50. Engineering stocks returned to favour, led by a DM 5 advance for Mannesmann to DM 196, while KHD added DM 6 to DM 273. MAN moved against the trend to end down DM 6 at DM 171.

By contrast trading on the bond market was quiet with price moves small. The Bundesbank sold DM 41.6m of domestic paper compared with DM 82m on Monday.

U.S. investors were at the fore of a strong rally in Amsterdam which pushed the ANP-CBS General index to its second consecutive record with a rise of 2.0 to 217.1

Among banks ABN and NMB both reached record levels with the former gaining Fl 6 to Fl 468 and the latter 2.50 to Fl 198. Benefiting also from hopes of further cuts in domestic interest rates, insurer Amev firmed Fl 2.10 to Fl 249.30, and Aegon and Nat-Ned each rose Fl 1.10 to Fl 96.40 and Fl 71.30, respectively.

Publishers were also in heavy demand for the second day with VNU up Fl 3.50 to Fl 205.50 and Elsevier 90 cents to Fl 125.80, while copier maker Océ van der Grinten moved to a 1985 high with a Fl 3 advance to Fl 329.

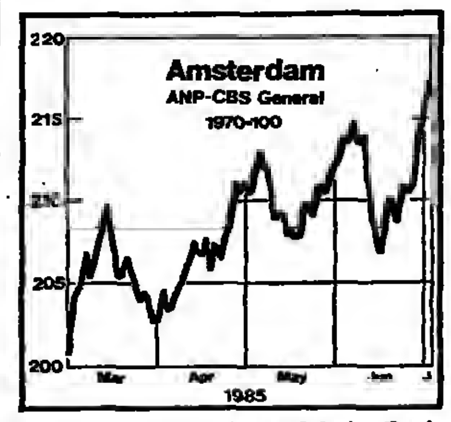
Engineering group Holec featured again with a Fl 9 surge to Fl 234 on expectations that the company will benefit significantly from higher public spending.

Bonds remained dull as traders awaited a lead from the release of economic indicators from the U.S.

Zurich marched forward largely under the direction of foreign buyers, who expressed their conviction that the U.S. dollar will continue to fall against the Swiss franc through large buying orders which boosted volume to near record levels.

The Swiss Bank industrial index was carried to another record, adding 2.0 to 449.9, while indices covering metals, chemicals, banks and insurance stocks also touched peak levels.

The three leading banks hit record price levels, with the Union Bank up SwFr 100 to SwFr 4,290, Crédit Suisse SwFr 50 to SwFr 3,000 and Swiss Bank SwFr 10 to SwFr 472.



In insurance stocks, participation certificates continued to rise on active trading. Baloise added SwFr 125 to SwFr 2,000, while Swiss Re was up SwFr 50 at SwFr 2,080.

Paris was sheltered from the activity seen in other markets by the absence of international interest and hestitation among local traders while the market finds a new direction.

The construction sector stood out with several leading groups posting solid gains. Bouygues was particularly sought following news that the company will participate in several aspects of the construction of the cross-Channel link. The company's shares added FFr 17 to FFr 828.

Milan advanced as foreign buyers also entered to lift turnover.

Fiat was out of line with the rest of the market and closed down L30 at L3,750, although after close trading pushed it forward as encouraging comments from the board filtered into the market.

Madrid made ground in light trading, while Stockholm was again quiet, and the Veckans Affarer index slipped 2.2 to 455.1.

TOKYO

Private investors dominate

PRIVATE investors injected buying interest into otherwise dull trading in Tokyo yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

Corporate and institutional investors remained on the sidelines awaiting fresh incentives.

The Nikkei-Dow market average rose sharply above its recent record high at one point but closed 5.28 points down at 12,913.75. Volume remained thin at 368m shares from the previous day's 345m. Losses outnumbered advances by 411 to 381, with 144 issues unchanged.

Some car makers and components groups attracted buyers as the market was stirred by reports that Toyota Motor will build a factory in the U.S. to produce 200,000 medium-sized cars annually. Car component stocks benefited from expectations of increased exports to the U.S.

Prominent among these was Topy Industries, Japan's largest wheel maker, which gained Y2 to Y302 on volume of 6.53m shares, the third most active stock. NOK firmed Y15 to Y563, Kayaba Industry Y2 to Y339 and Nippondenso Y40 to Y1,350.

Mazda Motor put on Y4 to Y470, but Toyota Motor remained unchanged at Y1,270.

In the absence of fresh incentives, some non-ferrous metals climbed on speculative buying. Sumitomo Metal Mining topped the active list with 10.29m shares and gained Y50 to Y2,030, surpassing the record high reached the previous day. Furukawa also climbed Y28 to Y458.

Elsewhere, Tokyo Sanyo Electric, strongly competitive in the field of refrigeration appliances, came second on the active list with 8.60m shares and rose Y7 to Y726.

Mitsubishi Heavy Industries eased Y2 to Y320 and Nippon Steel Y2 to Y159. Speculative buying pushed Nippon Denko Y50 to Y1,580 on volume of 6.01m shares, the fourth most active. Asahi Chemical moved erratically in speculative buying and closed Y8 down at Y910.

The bond market was relatively active, experiencing a bout of profit-taking by large financial institutions such as securities houses, city banks and trust banks, but firming on a broad front.

The yield on the benchmark 7.3 per cent government bond due in December 1993 fell below the previous day's record low of 6.410 per cent to 6.390 per cent.

SECTION III

FINANCIAL TIMES SURVEY

香 HONG KONG 港

A time of unprecedented economic and political change faces Hong Kong as it begins its 12-year adjustment to the end of British colonial rule and its re-absorption by China

A territory in transition

By David Dodwell

WHEN THE Chinese national flag rises over Hong Kong's government offices in the first week of July 1997, the intention is that people will treat this as any other day and get on with business as usual. Certainly the British colony's government will spend the next 12 years creating an impression of unruffled continuity in the handing back of sovereignty to the mainland.

In reality, however, the 5.5m people of Hong Kong face a time of unprecedented change.

The strength and importance of the territory has sprung in recent years from its physical attachment to, but independence from, China. Questions remain whether this vibrancy will be retained once Hong Kong is reabsorbed by the mainland.

Economic and commercial links between Hong Kong and the mainland are developing at an astonishing rate. This is partly due to the consequences of Peking's policy of "opening up to the outside world," and partly to the adroitness of local businessmen in exploiting new opportunities on the mainland.

There is growing confidence that this policy will not be thrown into reverse. But it is a brave person who dismisses the possibility of further political and economic upheaval on the mainland. If present policies remain intact, Hong Kong stands to gain substantially, albeit as a service and entrepot centre rather than an a manufacturing base.

If policies change, Hong Kong has economic upsets ahead. Some locals have, therefore, been more concerned to have assurances about the character of the government in Peking up to and after 1997 than they have about assurances about Hong Kong.

China's main concern has seemed to be to inherit Hong Kong as an efficient money-making machine. While the preoccupation of Hong Kong people with earning money is almost apocryphal, there are an increasing number, particularly among the young and well educated, who also want clearer assurances about the quality of life and civil liberties. These may be a long time coming.

Under the Sino-British Agreement ratified in Peking this May after three years of secret negotiation, China promised Hong Kong "a high degree of autonomy." Under the untested theory of "one country, two systems," Hong Kong will remain a liberal, free-wheeling capitalist enclave alongside socialist, puritan, bureaucratic China—insulated by a 14ft fence and the promise that local people will rule Hong Kong.

The agreement is "magnificent," according to Professor Peter Harris at Hong Kong University. "But is it politics?)."

"Where are the banana skins? Politics is a hard business and there are no political realities in it. It is so idealistic, one almost feels like comparing it to the Ten Commandments."

Given the possibility of substantial slippage between the letter of the agreement and the spirit of its application in 12 years, Britain's colonial government (and a large number of local Chinese) have set about leaving as little as they can to chance.

Political reforms aim to dilute the power of government officials and appointees in the territory's highest decision-making bodies—the Executive and Legislative councils. In September, members of the Legislative Council will be elected for the first time—albeit indirectly by an electoral college of district board members, and by functional constituencies, a political deformity which it is hoped will be short-lived.

A review of political reforms is planned in 1987 when the Government may feel brave enough to propose direct elections. Sir David Akers-Jones, the territory's new Chief Secretary, said: "No one is making hard and fast decisions about 1988."

China has offered Hong Kong self rule but probably not democracy in any conventional sense. Peking has kept its own counsel on the proposed reforms, which explains the trepidation of government officials drafting them.

It may also explain the skirmishes that have coloured the recent political scene. Officials wary of encouraging "adversarial politics" have tried to define the limits of political activism. Those holding political power by virtue of patronage from the Governor have made sometimes naive efforts to carve future niches, while pressure groups have attacked threats to civil liberties.

There have been disputes over elimination of juries for the hearing of complex commercial crimes and over the Powers and Privileges Bill intended to give legal immunities to the Legislative Council. Even the scheme to charge road users by computer every time they enter certain congested areas has been seen as threatening personal privacy.

The disputes have been unusual because the Government's sophisticated methods for measuring public opinion seem to have gone awry, while pressure groups have shown a heightened awareness of civil liberties. It is no accident that the parties involved are groping blindly towards a political framework tolerable to China and to Hong Kong people.

China has made gestures aimed at fostering confidence. The Basic Law Drafting Committee, which will sit for five years drawing up Hong Kong's post-1997 constitution, includes 23 local people out of a total membership of 59. These are not Peking stooges, including pillars of the Hong Kong establishment like Sir Yue-Kong Pao and Li Kashing, vice-chancellors of Hong Kong's two universities, the Anglican Bishop of Hong Kong, and

CONTINUED ON NEXT PAGE

Hugh Routledge

Toasting a new relationship: Chinese Premier Zhao Ziyang and British Prime Minister Margaret Thatcher

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Hong Kong 2

A 12-year period of transition

CONTINUED FROM PAGE ONE

president of the Buddhist Association.

In contrast, Peking was obdurate over British proposals to include Hong Kong Chinese on the Joint Liaison Group, which will oversee the transition to 1997. Some still see an iron fist beneath the silk glove.

There are signs that Hong Kong may be a hard place for Peking to handle, in part because it is a sophisticated and affluent society being absorbed into what is still a rural peasant economy.

There are signs of a sense of belonging among Hong Kong people. After more than a decade of relative stability this traditionally refugee community has begun to put down roots. About 60 per cent of the population was born in Hong Kong and identifies strongly with it. How Peking will respond if this comes into conflict with calls for overriding loyalty to the motherland is uncertain.

Many also have a strong sense of goodwill towards China, which has prompted them to take Peking at its word in a year during which many promises have been made. Much business being done in China reaps negligible profits, and is based more on patriotic than commercial logic.

This has left many in the small but significant expatriate group in the territory's civil service feeling out in the cold. Recruitment of expatriates for pensionable jobs has come to a halt, and no more than 70 will still be in service in 1997.

The Taipans of the late 19th century acknowledged that the Chinese were vital to the community, but if they chose to work in a Crown colony should be prepared to put up with inconveniences to preserve the well-being of expatriates. To what extent will the tables be turned after 1997?

Sir John Brembridge: "Hong Kong still exposed"

Change has already brought down one of the pillars of Hong Kong's laissez-faire philosophy. There is a sad irony that the ideals of "positive non-interventionism" sculpted by Sir Philip Haddon-Cave, should be under assault just as he retires as Chief Secretary after almost three decades in the territory.

The recent scandal-ridden collapse of the Overseas Trust Bank has underscored the need for closer supervision of the banking sector, and may add impetus for better regulation of the securities industry. Hong Kong is not headed in the direction of Singapore, but the territory may prove a less attractive haven in the years up to 1997 to the capital of uncertain origin that has played such an important part in past growth.

Tremors following the collapse of OTB sit uncomfortably with the fact that 1985 is the Chinese Year of the Ox—a year of hard work, resilience, stability, peace and prosperity. It is therefore notable that the Bank of China stepped in to help restore calm.

It is improbable that the bank has any great faith in such superstition, but in this instance, the interests of the soothsayers and the Chinese authorities coincide. The Year of the Ox may therefore live up to its reputation.

Economic squalls dispel complacency

Uncertainty is likely to remain a dominant factor as the territory's economy comes more under the influence of mainland China. Meanwhile, a new political system is evolving

香

Overview

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AFTER THREE of the most turbulent years in Hong Kong's 143-year history, by the time of this year's April Budget the colony appeared to have found calmer waters.

The effects of the 1982 property market collapse had begun to work their way out of most company balance sheets. Political alarms around the final difficult stages of Sino-British negotiation over Hong Kong's future, which had kept the local currency and stock markets in a state of shock, had been quietened.

Strong growth in the U.S. economy, and the opening up of China had provided impetus for striking economic growth.

But the past two months have reminded anyone rash enough to be complacent just how fickle Hong Kong's economic climate can be. Protectionist moves in the U.S. have put a share of the colony's garment exports in jeopardy, while demand for electronic products has stagnated.

Most recently, the scandal-ridden collapse of the Overseas Trust Bank, one of Hong Kong's leading local banks, has highlighted continuing weaknesses in the economy and taken the wind out of the Stock Market's sails.

These developments may prove a valuable sobering effect in the territory after a remarkable period of economic growth in 1984 when the gross domestic product increased by 9.6 per cent in real terms and exports rose by 17 per cent. Exports to China soared by 60 per cent, inflation fell to about 8 per cent and real incomes rose by 11 per cent.

These were all in an economy boasting full employment.

But Sir John Bremridge, Hong Kong's financial secretary, struck a warning note in April's Budget debate when he told legislative councillors: "We live in an uncertain world which savagely penalises dogmatism.

"The prospects for sustained economic growth in 1985 largely depend on whether the economic conditions prevailing in our main markets continue to improve; on the maintenance of the competitiveness of domestic exports; on the extent to which Hong Kong's products have freedom of access to these markets; and on the productive capacity of the economy."

He worries that visible trade accounts for more than 160 per cent of gross domestic product. Strong demand from the U.S. last year only served to increase the territory's dependence on its leading market, which now accounts for 44 per cent of exports.

"Hong Kong is still very exposed to external forces over which we can have no control," Sir John said.

This is one reason why his projections for 1985 are cautious. Exports are forecast to grow by 11 per cent, and the gross domestic product by a below-average 7 per cent. Maintaining tight control of public spending, he forecasts a budget deficit this year of HK$1bn, and a return, for the first time in four years, to a balanced budget next year.

Trade

There are signals that he may achieve a balanced budget this year. But after getting his budget sums wrong by several billion dollars in the wake of the property market collapse, he is not planning to leap to early conclusions.

Uncertainty is likely to remain a common denominator of Hong Kong's economic life, but the reasons are changing. As 1997 approaches and Hong Kong's reabsorption into China becomes more imminent, so the Chinese economy will play an increasingly powerful role in influencing the economic future.

Trade between Hong Kong and China has rocketed in five years. Less widely appreciated is the extent to which mainland Chinese institutions have invested in local manufacturing—estimated at more than HK$2bn—and fostered Hong Kong investment in mainland ventures.

One potent but indirect signal of this trend is that since early 1982 Hong Kong has been a net debtor to Chinese banks. Overall net indebtedness has risen to $13.8bn in that time, and swing in China's favour by more than HK$20bn since the first quarter of 1981.

The possibility of political turbulence inside China in the years ahead, which would clearly hurt Hong Kong, cannot be ruled out. But China is doing much to foster stability and economic prosperity in the territory.

This has been demonstrated by the Bank of China's decisions to bail out Conic Investments, a leading electronics group, to rescue a major loss-making cement manufacturer, and to provide credit lines to banks troubled in the wake of the collapse of OTB.

The Bank of China has also played a part in the Government's maintenance of currency stability. The link with the U.S. dollar, introduced after a serious run on the Hong Kong dollar in September 1983, held firm in spite of political upsets last summer.

The price of this policy has been extreme volatility in interest rates and one of the world's strongest currencies, which has not been welcome to local exporters. The defence, fiercely defended over the past year, does not appear about to fail. But the Government has signalled that economic performance over the year ahead will depend heavily on movements in the value of the U.S. dollar.

A break in the link cannot be ruled out, but is only likely if the U.S. dollar falls suddenly or steeply.

Sir John Brembridge's reluctance to pay any savage penalty for over-attachment to dogma has led to a new look at issues that would once have been unquestionable.

The first sacred cow to undergo examination is Hong Kong's "no questions" regulatory system. Tighter supervision of the territory's security and banking industries is inevitable in the wake of corporate and banking scandals.

Taxation

The failure of OTB, with bad debts that could amount to HK$4bn, prompted Sir John to say: "Freedom has its price. We must ask whether we are paying too high a price."

Questions have also been raised over low taxation because of:

● A series of large budget deficits in the wake of the 1982 property collapse, the aim of a balanced budget means that government spending has to be cut or taxation increased. With public sector spending likely to account for a mere 16 per cent of gross domestic product this year after severe cost-cutting exercises, the Government has said public spending has already been trimmed to the bone.

● A steep and permanent decline in earnings from the sale of land leases. The Government acknowledges that substantial earnings from this source in the early-1980s were extraordinary in any case. The establishment of a land commission, made up of Chinese and British officials to regulate land sales and set aside half the proceeds for Hong Kong's post-1997 government means that this will never again be a significant source of revenue.

● Pressure to increase welfare spending, partly because Peking would like to see the "unacceptable face of capitalism" receive attention before 1997, and partly because a gap is emerging between Hong Kong's disadvantaged and the middle classes.

"Private affluence and public squalor should not co-exist," Sir John said in April's Budget debate, reflecting a sentiment that Peking would endorse.

In spite of this trend, the Government says it remains wedded to low taxation.

"Hong Kong is not a tax haven, but we know that moderation in taxation is an essential spur to individual effort," the Financial Secretary said in February this year.

After the upsets of the past three years, Hong Kong is perhaps a steadier and more mature place. Sir John Bremridge is among those who acknowledge that this has to be a good thing, but it is likely to make Hong Kong a duller place in which to live and work.

"It is the barracudas that have made life here so interesting," he says.

David Dodwell

Shadow political parties developing by stealth

THE DEVELOPMENT of democratic institutions in emergent nations can be tumultuous, accompanied by much turmoil. This is not so in Hong Kong.

One difference between the colony and, say, Zimbabwe in 1980 is that while the latter was lurching towards statehood, Hong Kong is set to become a capitalist adjunct of China. Not only the standard of living, but the political destination is different.

In Hong Kong they are starting the political process in reverse of the normal order. Local Chinese are already well represented at every level of the administration under the patrician figure of the Governor. They have direct access to power and influence and are in some ways well placed to step into the shoes of the colonial authority. They also, crucially, control most of the economy.

Only now, however, with the handover date of 1997 hurtling towards them, are they having to worry about on whose behalf their power should be wielded and with what authority.

A common denominator for many Hong Kong people is love of money. If there is a Confucian equivalent to mammon then someone in Hong Kong probably discovered it.

Ideals

There is a conviction that hard work and initiative can make you a millionaire. It is a characteristic of refugee communities worldwide.

It follows that the political middle ground starts with the premise that no-one should be deprived of his or her right to earn large sums of money and to spend it virtually without hindrance. Many pressure groups—and many of the young—have more complex and socially concerned ideals, but they remain a minority.

The second political constraint is China, which has yet to articulate its feelings on how the new Hong Kong should be run but which is less than enthused by the prospect of a pluralist democracy.

China wants Hong Kong to be effectively governed so that it continues to operate as a money factory. It does not wish to take over a territory which it cannot readily control.

Within these two parameters, Hong Kong's political establishment is beginning to move. "Personalities" are coming to the force; ideologies are being evolved.

Political parties are being formed only slowly. Political association is by stealth, with few open admissions of group identity and discipline.

The Progressive Hong Kong Society, run by Maria Tam, is far and away the most influential of these shadow parties. Many successful candidates in the local district elections in March owe their success at least in part to Miss Tam's patronage.

A 39-year-old lawyer and a member of the Hong Kong Legislative Council, the Executive Council and the Urban Council, Miss Tam denies claims that she is seeking to build a personal power base to dominate Hong Kong after 1997.

Maria Tam: "I don't believe in the free lunch"

Allen Lee: "We are putting the economy first"

"I am setting up a relay structure," she insists. "I am not going for the tape. The one to run the last 100 metres (and become Hong Kong's first post-colonial chief executive) is not yet known."

Miss Tam is perhaps being a little disingenuous when she plays down personal ambition. "I know where we will be in a year's time better than my colleagues, but I'm not saying," she adds.

So what does the Society stand for? The popular belief is that it is strong on law and order and its leader does not deny this. What else, though? "I don't believe in the 'free lunch,'" she says, echoing a widespread distaste for a number of welfare state benefits, particularly unemployment benefits. "Nor do blue-collar and white-collar workers." In a full employment society this is small wonder.

"I am convinced you can have a capitalist society that works, providing the rich are involved. If the rich concentrate solely on making money and leave government to the less rich, there is a danger of a swing towards Socialism."

Miss Tam's backers are mostly rich and a lot of money has been lavished on her efforts. Even so, there are ordinary supporters, too, as clearly demonstrated in the district elections. These are the people who aspire to wealth; certainly they believe in the power of money for good.

Across the harbour, but at a similar point along the political spectrum, Mr Allen Lee, a prominent Hong Kong industrialist in his 40s, helps lead a rival grouping of the privileged that has yet to give itself a name. He and other members of the colony's Chinese elite, including the redoubtable Mrs Selina Chow, a fellow member of the Legislative Council, have yet to work out exactly what they stand for. There are, though, several pointers.

"We are preparing a feasibility study on politics," Mr Lee says. "And we are putting the economy first. Economics and politics should go hand in hand, but it is the economy which is vital.

"The system that has made Hong Kong what it is today must be maintained. It is the creation of wealth, not its distribution that will be our first priority. Before anything else, we are businessmen."

The Lee group — which intends opening its doors to every level of society—is studying the constitutions and manifestos of British and U.S. political parties, "trying to find out what they stand for." It is also going through the list of members of the district councils to find out who appears to share its beliefs.

None of this is an easy business. "A strong party would need at least 20,000 members — some would say 200,000," says Mr Lee. "But the people of Hong Kong are not that interested, and getting them to examine the claims of different parties could prove quite a problem."

Involving the people is also the aim of Dr L. K. Ding, a 65-year-old veteran of Hong Kong's political by-ways and co-founder of the Association for Democracy and Justice. Dr Ding is a committed Christian and would most probably be seen in Europe as a Social Democrat.

Welfare

He remembers the Cultural Revolution and believes it is essential for Hong Kong to organise in such a way that it does not cause offence to China.

Dr Ding is one of a number of pressure group leaders in Hong Kong whose expressed concern is for the welfare of the people.

Most of all, though, he is concerned about the maintenance of freedom within a society whose destiny is being shaped elsewhere.

Miss Tam is also aware of the limitations imposed on developments in Hong Kong by the authority of China. For the moment, she is concentrating on problems closer to home.

Various other putative parties are arising. Elections to the district councils will be followed in September by those for the Legislative Council, so time for organisation is short.

No one group is likely to emerge triumphant in September. The election is indirect, and calls in part on functional constituencies representing different industrial and professional classes which are now forming the political parties.

It should be possible after the ballot boxes are closed to see how the opinion makers are forming their own opinions.

Walter Ellis

Hong Kong 4

Overhung by complex of emotion

Trade
LARRY KLINGER

ON THE opening page of Tai-pan, James Clavell's popular novel based on the history of Hoog Kong, ao American businessman, waiting to witness Queen Victoria's representative take formal possession of the territory, expresses the sentiment that the future of the China trade is here, for better or worse.

This draws a sharp retort from a fellow China trader: "Hong Kong's got no future."

Today, nearly 150 years later, as Britain prepares to hand back its colony to China, Hong Kong's trading position is again overhung by a complex of emotion:

● For the immediate term, there is the business community's widespread optimism based on proven success in being able to adapt quickly to changing conditions.

● For the short term, however, there is deep concern on how to cope with a still-flagging world economy and, especially, with growing protectionist sentiment in the U.S.

● For the long term, there is a controlled anxiety, in some cases tinged with fear, over what the future could hold as time marches towards the 1997 hsndover to China.

Meanwhile, the China trade is booming. Hong Kong is taking once again its traditional role as a thriving entrepot for the mainland without having to lessen its manufacturing industry, created out of economic necessity when the China trade was cut by the Korean war in the 1950s.

In the seven years since Peking launched its outward-looking modernisation policy, China has hecome Hong Kong's second most *important* market for domestic exports, after the U.S., leaping from 15th place in 1979, when it reappeared in the top 25.

Hoog Kong's domestic exports to China last year were worth more than HK$11bn (compared with 0.7 per ceot of that in 1978) and are expected to increase this year by 50 per cent in value terms. First-quarter growth this year was 97 per cent over the same period in 1984.

Hong Koog's re-emergence as entrepôt for the mainland is even more striking, straining the territory's port and spurring expansion plans for container facilities. These should soon put the port ahead of New York and behind only Rotterdam in turnover.

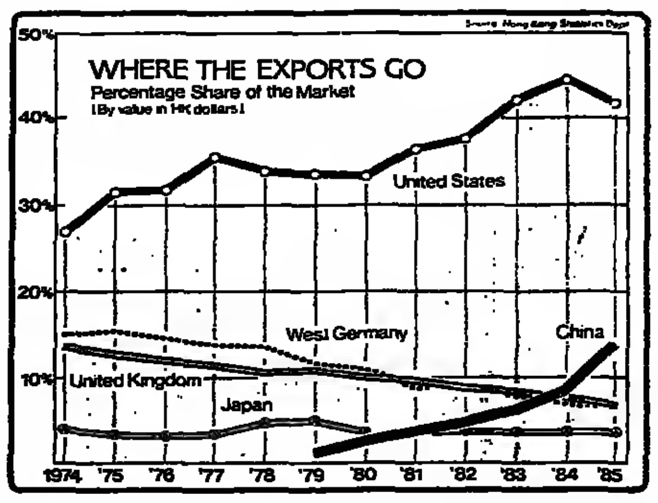
The territory's re-export of Chinese goods showed nearly an eight-fold growth over the past seven years and reached more than HK$ 28bn in 1984. This year's first-quarter re-exports were nearly 150 per cent greater in value compared with the period a year earlier. About 50 per cent of the territory's imports from China are being exported compared with only about 35 per cent in 1978.

High-tech

Re-exports to China, following a decline during the maioland's political upheavals in the early 1970s, have also shown almost continuous growth to more than HK$ 28bn last year. This represents an average growth of 125 per cent during the past seven years.

However, this booming trade remains subject to the Chinese Government's policy, or possibly even political whim, in its handling of what remains a centrally-controlled market.

Already Peking appears to be clamping down on money supply and on *the flow of foreign* exchange for goods other than high-tech materials needed for industrial modernisation. Hong Kong government and business *circles* are unable to *forecast* what this policy, which they believe is still not completely formed, will bring.



Meanwhile, the Hong Kong Government is sticking by its forecasts. "We have more than a 50-50 chance of meeting our *export expectations this* year to China of between 30 and 40 per cent growth in real terms," one government economist said.

More worrying, in the short to medium term is the trading position with the territory's Western partners, particularly in the mainstay textile and electronics industries.

Hong Kong businessmen are quick to say that with the world's eyes focused on developments in China, it is increasingly overlooked that the territory's trade is still dominated by the U.S., which takes more thsn 40 per cent of Hong Kong's own exports. U.S. trade, combined with that of West Germany (nearly 8 per cent), Britain (7.5 per cent), Canada and Australia (both with more than 3 per cent), represents more than two-thirds of the markets. This puts China's 7 per cent in a different perspective.

Hong Kong has weathered better than most the world economic downturn, with export growth on a year-to-year basis averaging around 25 per cent over five years. But the Government's *survey of* the economy at the end of last month produced some disturbing figures. Domestic exports fell by 1 per cent (nominal) in the first quarter compared with the period a year earlier, while those for the U.S. fell in real terms by 8 per cent, for West Germany by 20 per cent, Britain by 13 per cent, and Japan by 3 per cent.

There were some signs of a slowdown in manufacturing, with greater retention of imports of raw materials and semi-manufactures. The slower growth rste in the U.S. economy was cited as a main factor.

It is the U.S. that is causing most *worry*. *In addition* to slower economic recovery, protectionist sentiment is growing and the market for Hong Kong's exports of office machines and data processing equipment (off 38 per cent in the first quarter) and sound recording and reproducing equipment (off 23 per cent) *may* be reaching saturation point.

Hong Kong received a shock last autumn when, in the run-up to the U.S. presidential election, the Reagan administration bowed to long-resisted pressure from the U.S. textile industry and allowed a revision of the rules of origin on knitwear. *This* banned *import* of high-earning Hong Kong products whose basic components were manually produced in China.

The Hong Kong industry responded by placing orders for an estimated HK$ 200m of knitting machinery from Japan and Europe. The alternative, was the loss of business worth up to HK$ 2bn.

"We can get over this problem if it remains an isolated one," said Mr Kenneth Fang, director of Fang Brothers Knitting. "The trouble is that we know support is building in Washington for greater protectionism, which could roll back trading rules to the early 1970s and make a nonsense of GATT.

"There doesn't seem to be an immediate threat from the EEC, but what if they get the same idea as the Americans?"

In the electronics industry the problem is that the slowing down in the recovery of U.S. consumer spending power has coincided with saturation in the market and a tightening of technical specifications on imports.

Hong Kong is responding by developing sales to China for its existing products, which, the Americans think of as old but the Chinese find new. Advanced products are also being developed for the U.S. with accessories providing new functions.

"The saturation of the U.S. market, which takes 90 per cent of Hong Kong's electronics industry has not been what you would call healthy this year," said Mr Vincent Ng, senior executive for research and development at Elec Eltek.

"I would not say the situation is bleak. The industry is quiet but companies are not going bankrupt, except for some very small ones. The U.S. dollar is weakening and, with the Hong Kong dollar pegged to it, the Europeans will be back in the Hong Kong market in the third and fourth quarters."

Mr Ng, along with the majority of other Hong Kong msnufacturers in most fields, sees the China trade as where the bright future lies. Mr Ng's company was able to "get rid of" 30,000 telephones in China that had been destined for the U.S.

With thorough optimism—whether real or not is not always easy to know—businessmen say that China must modernise to compete with the rest of the world, and that Hong Kong can help.

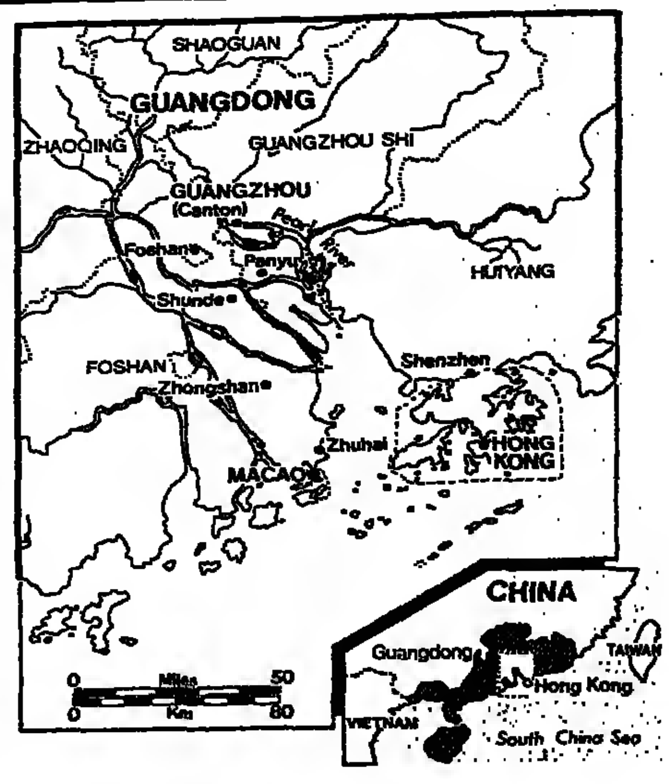
On the other hand Hong Kong executives admit privately that their companies are fast establishing branches overseas where business can be transferred.

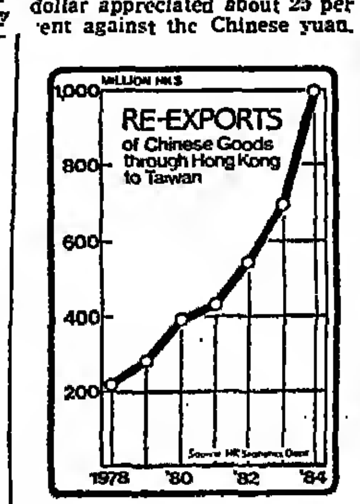
"We will not just announce one day that we are quitting, like some of the British do," one executive said. "We are Chinese and will go with dignity; but we will go if we have to."

The clampdown by China on use of foreign exchange has also increased coocern over how much the country is prepared to buy. Last year Hong Kong's manufactured goods increased in price by 7 to 8 per cent, while the Hong Kong dollar appreciated about 25 per cent against the Chinese yuan.

Economy 香港

The trading position remains solid. Unwelcome pressures in the West have been offset by China's growth. But anxieties abound. Will protectionism grow, and what else will the future hold as 1997 approaches?





Trade with China

	1983 HK$bn	1983 % growth	1984 HK$bn	1984 % growth	1985* HK$bn	1985* % growth
Exports	6.2	64	11.3	81	3.9	97
Re-exports	12.1	52	28.1	130	11.8	149
Imports	42.8	30	55.8	30	12.1	−3
Total	61.2	55	95.1	45	27.8	45
Balance	−24.4		−16.4		3.6	

* First quarter against the same period in 1984. Rounded figures do not necessarily total.

Trade with Taiwan

	1983 HK$bn	1983 %growth	1984 HK$bn	1984 %growth	1985* HK$bn	1985* %growth
Exports	1.3	27	1.6	24	0.2	−7
Re-exports	3.5	30	4.9	41	0.6	−11
Imports	12.5	22	17.4	39	3.0	35
Total	17.2	24	23.8	38	3.8	22
Balance	−7.7		−10.9		−2.2	

* Jan.-Feb. against the same two months in 1984.
Source: Hong Kong Statistics Department

A pragmatic approach to mainland trade

Taiwan
LARRY KLINGER

HONG KONG'S nearest neighbour of any significance other than China is the island-state of Taiwan, about 110 miles from the mainland.

It is little more than an hour away by leisurely jetliner, but politically the distance can be measured in light-years. Economic relations between these two Chinese-speaking compatriots in capitalism are burgeoning but for the most part shrouded in secrecy.

Taiwan's rulers, directly descended from the leadership that fled the mainland communist revolution in the late 1940s still maintain they are the only legal government of all China. They, therefore, consider direct contact with the mainland as aid to the enemy.

They seem prepared, however, to turn a blind eye to Taiwan's rapidly increasing trade with the mainland, most of which passes through Hong Kong.

The evidence of officials and diplomats in Hong Kong and Taipei is that Taiwan is prepared to sacrifice a little dignity because it would be foolish to disrupt a lucrative trade which it could do little to cut off even if it wanted.

The exact amount of trade is unknown, given that Taiwan industry is banned from trading with China. But Hong Kong is Taiwan's third largest market (after the U.S. and Japan). Official Hong Kong statistics show exports were worth HK$17.4bn last year, an increase of nearly 40 per cent on 1983.

Hong Kong officials estimate that up to 60 per cent of this finds its way to the mainland, which would put Taiwan's indirect exports to China last year at about US$1.3bn. Many experts believe the real figure to be much higher, and one Taiwan-based international banker concerned with trade puts indirect exports through Japan and Singapore as well as Hong Kong, at about US$2bn.

Contrary to general belief, there are official statistics relating to the China-Taiwan trade. The Hong Kong Statistics Department has published figures spelling out re-exports of Chinese-origin goods through Hong Kong by major destinations which show that this trade to Taiwan for 1984, amounted to nearly HK$1bn, an increase on the previous year of 3.6 per cent.

This trade will continue, too. Mr Chao Yao-Tung, chairman of the Council for Economic Planning and Development, the Taiwan Government economic advisory body, points out that Taiwan is fighting for its economic *survival*, and could *not* therefore cut off its trade with Hong Kong because of the Sino-British agreement on the transfer of sovereignty to the mainland.

Taiwan could not say "yes" to direct trade, but had to realise, too, that it could not stop indirect trade through other countries. Hong Kong was the key port in the region, not least because of the business intelligenca there, he said.

Links

The real danger to Taiwan was that China could cut this trade without notice. Taiwan's industrialists were being urged, therefore, not to expand investment and production in a way that they would become vulnerable to such sudden decisions.

Mr Chao's remarks were echoed by Mr King-Yuh Chang, the Government's official spokesman, on the day that the Sino-British agreement was being formally signed in Peking. He said that while the issue was still subject to study and debate in Taiwan, there was no reason to cut links with Hong Kong as long as the territory retained its political and economic freedom.

In other words, the key was that the mainland kept its part of the bargain.

He also emphasised the danger to Taiwan industry of over-dependence on the mainland. Alternatives were being considered, although Taiwan's trade with Hong Kong was relatively small set against Taiwan's overall trade of U.S.$50bn, he said.

Not all has been said and done on the issue in the multi-tiered power structure of Taiwan, however. At the end of May a Taipei newspaper report suggested that security forces were preparing to stop anyone leaving the country who was doing deals with the mainland. Mr Chao took immediate steps to have the report retracted.

Taiwan also appears to have adopted a similarly cautious position in its political relations with Hong Kong. The Taipei Press still writes regularly, as The China News did at the end *of last* month, that "Great Britain has sold Hong Kong down the drain in an illegal pact with the communist Chinese."

But the UK authorities in the *territory, after some anxiety* when the pact was agreed, now believe that Taiwan's foremost concern is stability rather than disruption of the agreement.

They believe that, in any case, the number of hard-core activists with allegiance to the Taiwan Government has dwindled in the colony to about 2,000. There have been no serious incidents allegedly inspired from Taipei since the riots of 1956.

"The situation seems the reverse of what we might have feared," one British official said. "As the extensive economic links build up between Taiwan and the mainland, Taipei seems increasingly willing to turn a blind eye even to unofficial diplomatic activity when Hong Kong can prove useful."

Nevertheless, it is not forgotten that ultimate power in Taiwan is still held by men implacably opposed to the Communist government on the mainland and that a stronger reaction can be expected if China were seen to interfere in Hong Kong's affairs beyond what has been agreed.

Between now and the 1997 hand-over of sovereignty there will also have to be some adroit juxtaposition of policies for the Taiwan Government to maintain its *outspoken* refusal to recognise the agreement, while quietly accepting it as the best that could be achieved in its interests.

Recent events suggest this is possible. Only a few weeks ago Fujian Province, China's closest to Taiwan, passed a motion permitting direct trade with Taiwan. Central government policy has long encouraged trade with what it regards as the mainland's "province" of Taiwan, but Fujian gave this added legal force.

Puzzling problems of looking outwards

Mainland

LARRY KLINGER

CHINA'S DECISION seven years ago to adopt an outward looking policy as a means of modernising its economy was bound to increase its interaction with free-wheeling capitalist Hong Kong. The phenomenal growth in two-way trade that has taken place and the revival of Hong Kong as an entrepôt for the mainland is one result. At the same time some of the consequences have been less favourable — and in some instances puzzling.

On the macro-economic level, the great leap forward in trade resulted in China having to come to grips with such issues as foreign currency policy. In other areas the two systems have remained apart.

Clampdown

For instance, Hong Kong's free-market position and the pegging of its currency to the U.S. dollar means that its inflation rate is almost entirely generated externally, while China's still relatively closed economy means that inflation remains largely domestic.

However, the door was also opened to some on-the-ground experiments that have produced surprising results. For example, the long-standing system of supplying mainland vegetables to Hong Kong received a jolt after China adopted a new system that allows profitable trade by individuals in produce retained after state quotas have been met. China has also leased some farming plots to Hongkongers in the mainland's special economic zones adjacent to the colony.

Vegetable imports from China have long been solid business, already worth HK$234m 10 years ago and more than HK$1bn last year, but the result of the new policy has been a flood of cheap vegetables seeking foreign exchange on the Hong Kong market, and disruption of established trading patterns on both sides of the frontier

The established Hong Kong traders complained to their mainland counterparts, who, sympathetic because of the slump in their own business, made representations to the authorities.

The experimental farming scheme had become so fruitful that the farmers were branching out to the export of quota-excess produce from the interior, to the obvious benefit of the Hong Kong consumer and, ironically, in line with the territory's cherished free-market policy.

The upshot was a clampdown by the Chinese authorities, who imposed export quotas on the parallel trading. The clinching reason was the Government's distaste for the growing quantities of foreign exchange which were passing through unofficial channels and well above the official exchange rate. There also were strong suspicions that the enterprising mainland-based Hongkongers were not so much farmers as unofficial exchange dealers profiting on the black market.

According to officials in Hong Kong, a similar situation, from the territory, existed for a while in the Chinese export trade for textile raw materials such as cotton yarn and fabrics, a business worth about HK$13bn last year. Here, too, the Chinese authorities brought in measures in an attempt to ensure there was little parallel trading.

There is also some mystery over what is really going on in the frontier special zones for export industry, set up with foreign investment and high-technology provided from abroad.

Preferential

While no stastics are available, evidence collected by government departments in Hong Kong suggest that they may have become primarily entrepôts for the import of consumer durables such as television receivers, refrigerators, personal computers and motor-cycles, with the result that they are running big deficits on trade. The suggestion is that these goods are finding their way into the interior, being processed, if not exactly duty-free, on preferential terms.

Air cargo forms an important part of the colony's trade.

It is puzzling to Hong Kong observers how the zones can continue to finance major infrastructure projects such as local authority buildings, roads, and water and drainage systems, given that their export business to date seems less than impressive. The conclusion in Hong Kong is that they are receiving sizeable funds from elsewhere in China.

While there is no doubt as yet that China's aim remains to develop exports with local manufacture, it appears increasingly to experts in Hong Kong that these zones are, at least for the time being, becoming trading places with the involvement of central government.

Ancestral loyalties feed China

LAST YEAR, Mr Li Yu and his wife packed their bags, sold their home in Hong Kong, and moved over the border to Shenzhen. Home is now the top floor of the stark new building of his company, Bright Sun Printing Press.

"It was a way of contributing to the four modernisations," he said. "In the short term it has not been beneficial to profits, but in the long term it will be advantageous —partly because I have recruited one third of the workforce from Hong Kong."

Mr Li is one of thousands of overseas Chinese, most from Hong Kong, who have ploughed capital into ventures in China, since 1978.

Alongside donations to build up China's infrastructure, and the family remittances which have continued for decades, they are playing a formidable part in fueling China's modernisation.

Hundreds of groups of companies or charitable foundations linking businessmen in Hong Kong with their ancestral villages operate unseen. The Luhaitong Corporation, for instance, channels funds into Xinhui County in the Pearl River delta, while the Taishan Chamber of Commerce in Hong Kong injects funds into Taishan, near Xinhui.

In the rural township of Magong, south of Guangzhou (Canton), in mainland China, walls in the main street are bedecked in posters detailing donations from families overseas. Magong has no more than 3,000 households, but the poster lists are much longer.

> 'Hong Kong plays a unique role in assisting the motherland in publicising and pursuing its policy of openness. It can serve the motherland in obtaining the economic information of the world and absorbing the experiences of management, capital, technology and professionals.'
>
> *Xu Joitun,*
> *Director of New China News Agency, Hong Kong*

In nearby Shunde County, officials say donations from Hong Kong amounting to HK$150m have met one-tenth of the total infrastructure investment over the past year. In Foshan, the fast-growing industrial satellite of Canton, officials say that 70,000 jobs—one-third of the total—depend on ventures involving "economic co-operation" with patriots overseas, again mainly in Hong Kong.

Even in Anhui Province, almost 1,000 miles north of Hong Kong and deep in China's interior, seven out of the 10 joint-equity ventures agreed last year were with Hong Kong partners.

In Shenzhen, neighbouring Hong Kong, where Mr Li has made his new home, Hong Kong investors account for an estimated 80 per cent of investments, totalling US$800m.

Officials in Peking have recently estimated Hong Kong and Macau businessment have set up more than 700 equity ventures over the past five years—about 80 per cent of the number nationwide, and accounting for almost 60 per cent of the US$1.4bn invested in the ventures.

All this evidence shows that China's modernisation drive would probably have been stillborn without the patriotic—and often uncommercial—economic stimulus from Hong Kong.

Mr Li, like many, was willing to take a risk. He had reached retirement age; his sons had settled in the U.S.; his printing company in Hong Kong was facing intense competition when costs were rising; and investment in new, sophisticated machinery was needed.

Shenzhen was offering start-up incentives. In a 50:50 joint equity venture with the Shenzhen Petrochemical Engineering Corporation, HK$25m has been invested. He has provided advanced machinery, skilled workers and technological know-how. His partners have built the plant, provided local workers, and cover local currency investment costs.

The target is for an annual turnover of HK$34m a year, generating profits of more than HK$7m, with 60 per cent of the books printed being exported using marketing links Mr Li has built over a lifetime. He is not allowed to market or distribute inside China, but expects domestic orders to account for 40 per cent of output.

He has had his share of headaches. Electricity supplies are erratic—as everywhere in Guangdong province. Most frustrating in a venture that depends heavily for its export success on overseas marketing, a telex has still to be installed, and direct-dial telephone calls reach only Hong Kong.

"We have had some difficulties in achieving our production targets," Mr Li says. "But in the future, when local workers are more skilled, we will be much more competitive."

The message is probably echoed by the thousands of other Hong Kong businessmen who are weaning mainland joint ventures out of their infancy.

David Dodwell

Fast-emerging traders keep their secrets

Enterprises

LARRY KLINGER

THE EXACT way in which the new mainland trading enterprises being set up in Hong Kong operate is far from clear: they are being established, however, by the dozen.

The Hong Kong General Chamber of Commerce* has compiled an official list of about 100 and believes on a reading of advertisements and notices in the local Chinese press, that more than 40 others have been formed in the last three months.

Even the New Chinese News Agency, which has long been China's unofficial but effective diplomatic presence in the territory, has not been able to compile a consolidated list. Things are happening too fast.

Many smaller companies are being established, too, by Hong Kong people — probably with strong, and possibly influential, family connections on the mainland — in the hope of getting part of the action in the booming two-way trade.

The trend is hardly surprising, given the amount of trade passing through China's newly-opened door, Hong Kong's lack of restriction on foreign investment and the freedom it offers to form a company for a HK$125 registration fee and with almost no questions asked.

Mainland-sponsored enterprises shun publicity at this stage. They are unsure; firstly, how far good Communists can go in operating as capitalists under China's new so-called "responsibility system." Under this, after certain stipulated commitments to the state have been fulfilled, normal business can be transacted to ensure company self-sufficiency and possibly profit.

Orders

They are also uncertain through lack of commercial experience and of close contact with foreign businessmen, how to conduct business in free-wheeling Hong Kong. Tha Chinese concept of "face" is certainly involved.

Nevertheless, the lack of information surrounding the new concerns has generated suggestions in rumour-rife Hong Kong that they are "infiltrating" Hong Kong's commercial life ahead of the territory's reversion to Chinese sovereignty in 1997, though this is being discounted by business organisations and government officials.

Most of the larger enterprises established over the past couple of years are tied to either mainland provinces or one of the new special economic zones. Their executives, along with the majority are still civil servants from these areas. The main thrust of their business is to obtain high-technology and industrial materials, at the best quality and the best price for organisations in the areas they represent.

After receiving requests from the mainland, they prefer to make their own contacts for possible orders, but they do not discourage unsolicited approaches from potential suppliers.

In addition to their main trading functions, which include handling export and import of consumer goods, they offer consultative and other services ranging from how to organise banking, cargo, documentation and transport, on both sides of the frontier, to the obtaining of visas. Most have staff who speak English.

There is obvious potential for these new enterprises to operate as agents for foreign companies, but this type of business does not appear actively sought.

However, the way in which the companies are financed, operate in detail, apply charges or take profits remains a mystery. Even the Hong Kong authorities are in the dark in spite of efforts to find out.

"They don't explain their operations fully even to their Hong Kong personnel," says one official.

Materials

Some idea can be gained, however, from the example of Shum Yip Holdings, which agreed to an interview on the recommendation of a leading Chinese newspaper editor and after the intercession of the Hong Kong General Chamber of Commerce.

Shum Yip, which set up about 18 months ago to represent the Shenzhen special economic zone, resides in smart offices in Kowloon's Tsim Sha Tsui East district. Its main business is to obtain for Shenzhen such things as construction materials, chemical products, computers, cars and motorcycles. Its turnover for 1984, in terms of the value of imports to Shenzhen, was between HK$600m and HK$700m.

Shum Yip claims business is good and improving. While the company would not discuss "profits," it says it operates within the new responsibility system — unsubsidised and self-sufficient. This includes payment of operating costs, including salaries.

Competition from the other new trading companies—there are 10 connected with Shenzhen alone — is not a problem, the company says, because there is plenty of business. Its main problem was being a newcomer lacking experience in dealing with foreign companies.

Shum Yip is increasingly dealing in consumer goods, but industrial products remain in the majority. Because of its good communications and the know-how it had acquired by being established in Hong Kong, the company was receiving an increasing number of inquiries from further into the mainland interior where interest was being shown in imports. There were still problems of foreign exchange, however, and difficulties in obtaining the necessary import licences.

Shum Yip recently gave considerable assistance to another Shenzhen company for the import of cars in return for payment.

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A game with Chinese rules

IN JOHN le Carre's spy novels the grizzled veterans of the Cold War play by "Moscow Rules." Smiley's People and their Soviet counterparts are ruthless but certain accepted procedures are observed. It seems to be a means of controlling the chaos.

In the real world of Hong Kong, China Rules govern the pace and pattern of the game. No-one has a copy of these rules, but everyone knows how to play.

In 1898, Li Hong Chang, a leading luminary of the decrepit Manchu empire, put his name to the so-called Unequal Treaties by which China signed away a number of its ports and surrounding areas to the European powers. Britain got Kowloon.

The 19th century had been one long humiliation for China, but the unequal treaties seemed to sum it up. Nothing has been forgotten. Deng Xaoping, the current Chinese leader, has said he is not going to go down in history as a second Li, and the evolution of China Rules *has been his means* of ensuring Hong Kong proceeds in one direction only.

In practice this means the Sino-British agreement is essentially a Chinese document to which Britain has given its acquiesence.

One commentator, aware of the extent of the pressure applied by China, said: "The population of Hong Kong should not know of the skulduggery that went on during the negotiations. Cabinet papers in London will keep this hidden for *30* years, and that's no bad thing."

Britain does not feel angry about this. It recognises the reality of the situation and feels it has done what it can to secure a decent future for the people of Hong Kong.

"*It* should be remembered that the link with Britain is already extremely tenuous" the same commentator said. Hong Kong has virtual autonomy.

"On paper, we are a colonial dictatorship of the worst kind. But the system doesn't work like that. By custom and convention, the people who matter have their say."

China was slotted into this delicate network of administration even before the Cultural Revolution of the 1960s. But it was the Maoist riots in the colony which demonstrated that the writing was on the wall for British rule. From then, everything significant had to receive Peking's assent. The alternative was a dramatic takeover by mainland forces.

If Britain and Hong Kong were careful to prevent this so was China: Hong Kong was too valuable. But the threat was there, bringing with it a Chinese authority to reshape much thinking over the next 20 years.

Today, China has its own surrogate embassy in Hong Kong—the Xinhua News Agency—and power in the territory is in some respects a three-way split between Government House, the agency and the ubiquitous Jockey Club, home of big business.

Britain is not yet toothless: it has 150 years of experience in Hong Kong, and without its benevolent administration the territory would be a different place.

Sino-British Relations

WALTER ELLIS

China is willing to learn as well as force the pace. Nor are the local Chinese mere puppets. Without their entrepreneurial genius, the takeover in 1997 would be a nationalist affair, of no economic consequence.

Mr Ji Shaoxing, in charge of foreign affairs at the Xinhua News Agency (the pretence of being a *Chinese version* of Reuters is paper-thin), makes a relaxed case in favour of a smooth transition to Chinese rule.

"Hong Kong's situation is becoming better," he says. From the political point of view, *most Hong Kong people, as well* as many foreigners, have made up their minds to stay here.

"The Hong Kong Government, even before the declaration, had been thinking about new structures, Britain also wants things to proceed smoothly."

Some might imagine that China would wish to begin massive recruitment into the Communist Party. But Mr Ji is more concerned that local Chinese moving up through the ranks of business and administration should know on which side their bread is buttered.

On the key issue of local democracy Mr Ji is less forthcoming. China is unsure about allowing free elections and a multiplicity of parties to become too rooted. It is one thing for people to have their say at district level without the discipline of the party, but quite another for the government to be controlled by groups who come and go at the whim of the people.

"At the beginning of March we had the district elections," says Mr Ji. "Many people were able to cast their votes. We have not made public comment on the democratic principle. We must wait and see.

"*Will it be good* for the stability and prosperity of Hong Kong or otherwise?"

September will be the next test of China's nerve. The elections then to the Legislative Council (until now an appointed body) will be indirect, with votes confined to district councillors in an electoral college, and members of so-called functional constituencies. Lawyers, teachers, industrialists, academics, trade union leaders and others will be expressing a free choice about the makeup of the body that frames Hong Kong's laws.

But more than half the eligible local Chinese did not register for the elections, displaying an indifference to local government engendered by generations of colonial rule.

Even so, if the new council turns out to be in some way unfriendly to China, the omens for future free elections will not be good. Peking does not want slavish followers, but it does want its capitalist fellow *countryman to* be aware of the realities of power.

In 1987, the Government and China will conduct thorough reviews of how the democratic process has developed. Britain believes it has done well by Hong Kong, removing the absolute threat of disaster 12 years down the line. But it has not been able to provide any guarantee of success.

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Politics

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How the Joint Liaison Group, the Basic Law Committee and the Land Commission carry out their duties is vital for the maintenance of confidence in the future of the territory

The search for common ground

THE Sino-British Agreement on the future of Hong Kong established three bodies destined to have a profound affect on the character and administration of the territory after 1997.

- The Joint Liaison Group, made up of representatives from China and Britain, aims to ensure a smooth transition of power.
- The Basic Law Committee is charged with the drafting of a local constitution.
- The Land Commission, is invested with powers over the future ownership of Hong Kong's most valuable commodity, the land itself.

Argument over the composition and authority of the three has overshadowed the "political" debate. Hong Kong is not used to politics, but it recognises power when it sees it and associates it with appointed institutions. Thus, while there is no rush to join the various "societies" that seem destined to grow into political parties over the next year or so, there has been intense local interest in the Big Three new bodies.

Peking is equally aware of the significance of the groups it helped establish. It sees them as the main instruments which will take Hong Kong out of its colonial status and into *its future* as a *special* administrative region of China. Thus, Peking was guarded about their composition and, in the case of the key Joint Liaison Group, angered local opinion by insisting on the letter of the law in relation to who was eligible.

Any belief by the indigenous population that Hong Kong is a third party in decision-making has been stamped on. China has been strained to accept taking Hong Kong as anything other than a constituent part of the nation, accepting this only because of economic advantage. It will not be told, however, that Hong Kong, as a nest of dissidents, can dictate the form of its reabsorption.

When the Hong Kong lobby began pressing for representatives on the Joint Liaison Group, China refused.

However, Mr Eric Ho, the Hong Kong secretary for Trade and Industry and one of the most prominent Chinese in the territory, was then granted British citizenship. He was thus acceptable to Peking and joined the "British" team.

He will be fighting for his local compatriots, and the Chinese know this. But face has been saved.

The Joint Liaison Group will operate close to the heart of Hong Kong government. It is expected to remain until the year 2000, shaping and reshaping institutions and moulding Hong Kong into the form in which it will survive until at least 2047.

The Basic Law Drafting Committee is an even *more crucial* body. Chinese law derives from thousands of years of tradition adapted to Marxist-Leninism. Hong Kong takes English common law as its root. The two are scarcely compatible.

Hong Kong is anxious that it should not be dragged into support of an alien system. But it is concerned that even if the laws are left largely alone, interpretation by mainland judges will gradually alter their character. What is not done directly could be accomplished by stealth.

Mr T. L. Tsim, of the Chinese university of Hong Kong, is one of the leading political passimists in the colony. He says anarchy is endemic in China and that Hong Kong will be drawn into a vortex of terror and retribution by political masters in Peking who have yet to come to power.

He plans to leave for America and urges others to follow. He is scathing of the Basic Law Committee.

"The major issue *is* who will have the final jurisdiction," he says. "If the basic law is seen to conflict with the Chinese Constitution then the Chinese will say Chinese law must prevail.

"*If* that *happens*, we are finished. We would be reabsorbed into Chinese culture. Capital punishment would return, along with heavy penalties affecting, say, pornography and 'indiscipline.'

"It is inevitable that Chinese values would insidiously return."

But Mr Ji Shaoxiang, a top official of the Xinhua News Agency (Peking's unofficial embassy in Hong Kong), insists that China will respect the letter and the spirit of the 1997 agreement. This will apply as much to the law as to anything else, he says.

Reforms

WALTER ELLIS

"I do not think that the Hong Kong people can integrate into mainland China. Their way of life is too different," he says. "It is not our intention to influence the Hong Kong way of life. They can maintain their way of life, their social system and customs."

To show its intentions China has permitted inclusion of 23 local Chinese among the 59 *members* of the Basic Law Drafting Committee. These include Sir Y. K. Pao, the shipping magnate, Miss Maria Tam, the political leader, and the president of the Buddhist Association.

The Land Commission has the problem that different systems operate on Hong Kong Island, which was intended to remain British in perpetuity, and in the New Territories, which are leasehold.

Leases in the rapidly-developing New Territories have been getting shorter and shorter as 1997 approaches, leading to instability. On the island, holders of long leases are wondering to what extent their ownership will be respected by Peking.

China does not approve of private land and property ownership, while Hong Kong does.

Mr John Todd, Director of Lands, returned recently from Peking "well satisfied" with assurances. The Land Commission has since been appointed, with three members from each side, and one Hong Kong Chinese included on the "British" team.

One of its first acts will be to decide the basis of future land auctions. Sales of government land have been suspended until the autumn pending an understanding.

How the three appointed bodies carry out their work is of vital importance for the maintenance of confidence within Hong Kong. China appears to accept this and has fulfilled its side of the bargain.

The territory's people must hope that Mr Tsim is wrong and that Peking's word is its bond.

Realism sets in

CONTRARY to belief outside Hong Kong, there is no mass exodus from the territory in the wake of the agreement between Britain and China for transfer of sovereignty.

Nearly every resident would prefer the Governor and the Gurkhas to remain in the best of possible worlds. But the Chinese are realists—in Hong Kong and Peking.

Hong Kong is not just a convenient base, but also home for a population rapidly approaching 5.5m Local Chinese cannot see why they should leave merely because of an untoward turn of the wheel of fortune.

Many of them, or their parents, had to leave previous homes as the Communists took over on the mainland. Now there is no obvious bolthole to which they can flee.

They have built a vigorous *society, a world economic* and financial power, and they hope that China will take them as an asset instead of seeking to reduce them to penury again.

The entire colony was jittery during the early days of the Sino-British negotiations in 1983. *Hundreds* of *thousands* of inquiries were made to the U.S., Australia, Canada and the UK about the possibilities of a second flight into exile. The talks took a turn for the better, and so did the people's nerve.

The search for a *last,* desperate refuge is now a minority passion. Most are reconciled to the reality of power, and those who are not are for the most part bent on a final 10 years of profit-taking.

There will be departures, however, and most worrying for the future financial well-being of Hong Kong is that most who leave will be those who can afford it. A diaspora of the privileged is in prospect.

Hong Kong is largely composed of immigrants. Traditionally, immigrants are among the best of their peoples—with the courage and the will to get out and build better lives.

Emigration

WALTER ELLIS

There is also a hard core of the wealthy and the educated in immigrant groups. Mixed with the poor and destitute of Hong Kong's early post-war arrivals was a generous sprinkling of doctors, scientists, entrepreneurs and bankers. Without them the economic miracle of the 1950s and 1960s would have been much less likely.

If the elite of today decided to take the money and run in 1997, not only will Hong Kong suffer but its usefulness to China would greatly diminish.

Some flight of capital has already taken place, and there are signs that the smart money these days is concentrating on property. It is expected that Hong Kong is in for another boom lasting for at least three or four *years as* uncertainties over 1997 disappear and the colony settles for one more round of expansion.

Come the late 1980s the rich may begin selling out, leading to uncertainty and then to a crash.

Peking may not allow this, however. China's property empire in Hong Kong is considerable, and the experts in Shanghai and Guangzhou may be ready to step in to take over from anyone nervous enough to leave. Equilibrium and confidence are everything for China if Hong Kong is to become the jewel in its crown.

Proven facts are few and far between. The U.S., Canada and Australia, in particular, were bombarded in 1983 and 1984 with immigration applications from Hong Kong Chinese.

But a few hundred thousand at most were involved. The great bulk of the population merely looked on and fretted. If they were to go, it would be the traditional way, by sea and at night, with intended refugee status as their only claim to assistance.

A majority of those who applied to leave went through the first stages only. Inertia, and anxiety about the outside world, prevented most from continuing.

In recent years, more Hong Kong Chinese than usual have gone to work abroad. Many have stayed long enough to establish residence qualifications and then come back. But they like Hong Kong, the place they have built out of nothing, and they do not relish exchanging this solid achievement for uncertain lives elsewhere.

The mass of people are likely to stay. They have nowhere to go. And, anyway, better the devil you know.

Hong Kong 8

香 Finance 港

After the years of uncertainty, the 'China connection' has turned into a potent force to strengthen the territory's position as the world's third largest financial centre

Why 1986 will be a busy year

Stock Market

MARY ANN SIEGHART

IN LESS than a year, Hong Kong's stock market index, the Hang Seng, has more than doubled, despite the odd blip caused by disasters like the collapse of the *Overseas Trust Bank*.

Restoration of calm after Sino-British agreement over the territory's future is a cause, though the main reason may be the stirrings inside China.

"Confidence is at the root of everything," says Mr D. K. Patel, Hongkong Bank's manager of economic research. "This confidence is not just a bubble. There are very good grounds for it, and I don't just mean the signing of a piece of paper between Britain and China.

"The major source is the radical change in China's economic policy and the business opportunities that have come to Hong Kong as a result."

Five years ago China was Hong Kong's 38th largest trading partner. It had risen to fourth place early last year, climbed to second by the year end and was top by the beginning of 1985. Part of the reason for the precipitous rise has been the *slowdown* in the U.S. economy. Exports to China have helped to offset the U.S. shortfall.

Last year the stock market failed dismally to reflect Hong Kong's real rate of growth of more than 9 per cent. Political uncertainty cast a pall over investment. *Foreigners*, and even locals, withdrew their money and the Hang Seng reached a low of 746 in the late summer.

Confidence returns

Then the Sino-British agreement was signed and political confidence gradually returned. The agreement contained a lot more detail than expected, and the economic liberalisation in China reassured Hong Kong that the Chinese were prepared to abide by their promise to respect the financial system.

Initially there was probably more interest from abroad than from domestic investors. To foreigners the fundamentals looked good, and if an investment manager wanted a link to China—potentially the world's largest market—Hong Kong appeared the best place to go.

"They all want the China connection," explains Mr Tim Fiducia, head of James Capel's Hong Kong office.

The Hong Kong stock market has also lagged behind the rest of the world. While the U.S. and Japan looked last year as if they might have seen their best, Hong Kong seemed as if it still had a long way to go.

At the beginning of this year domestic investment started to pick up, helped by a firming of property prices. Property shares make up more than half of the Hang Seng's capitalisation, and until the first quarter of this year property prices had remained stubbornly low.

Since then the recovery has been patchy, with some areas still suffering from an oversupply, but property companies' earnings and asset values should rise after dismal performances in the past three years. They will be helped by much lower interest rates and by the writing down of asset values.

Assuming corporate profits growth of about 20 per cent this year, the market stands on an average price-earnings multiple of 12 to 13 times 1985 earnings —still historically low compared with the astronomic multiples of earlier booms.

"There is time for people to make another fortune here," Mr Fiducia says.

There are still worries, underscored by the jitters that followed the collapse of Overseas Trust Bank. While the markets show few signs of the neuroses that dominated sentiment a year ago, upsets cannot be ruled out before 1997, and it will be some time before market operators drop their guard.

There is also political change to contend with, let alone the threat of protectionism from the U.S. China cannot follow the liberalisation route so fast for ever. A "great step backwards" would give the Hong Kong stock market a major wobble, as would the death of *China's Deng Xiaoping*.

Foreign investors may also be put off by "cowboy" standards of behaviour sometimes apparent in the Hong Kong market. There are no legal sanctions against insider trading; the worst a culprit can face is public disapproval. Rules on disclosure are also more lax than in London or New York.

Mr Derek Murphy, deputy commissioner for securities, *admits that he lacks power on* takeovers. "One of the problems is that we have not had the resources, and the exchanges have not been vigorous enough at self-regulation."

The aim is to tighten up rules on disclosure and the capital requirements of brokers. Plans are also under way for a unified stock exchange formed of the four existing ones.

"*It's* better to *have* competition between brokers than competition between exchanges which are offering the same service. It will be easier to supervise and monitor," Mr Murphy explains.

He will have a lot of supervision and monitoring because the brokers are *not happy* about the move and will do their best to get around its effects.

Their displeasure is seen by *the time it has taken* to open the exchange. Most things in Hong Kong are finished on schedule, unless the participants are not keen for them to happen. The unified exchange —now expected to open in 1986 —is several years late.

"They are going to have to change the *system within* months of operation because it won't work," says Mr Alan Smith, managing director of Jardine Fleming in Hong Kong. "We are all going to deal among ourselves, which will create less liquidity than the present system."

Mr Murphy admits that he does not know whether the system will work but he has no time for the rebels.

"The trading rules provide that all business will be done on the trading floor," he says. "If brokers flagrantly break the rules, they could be suspended."

1986 may be a busy year for him.

Wrangles over reforms

A NEW Hong Kong stock market and a revitalised *futures* exchange are due to get under way this year, capping a period of unprecedented reform in financial markets. Both hope their new structures will attract enough foreign interest to rank them with the world's major exchanges.

It has taken the Government many years to bring the Hong Kong, Far East, Kam Ngan and Kowloon stock exchanges together into one Unified Stock Exchange (USE). Even now, the process is not complete. There are still wrangles, for example, about how the USE's compensation fund will operate.

Technicians from Jardine Logiee are, however, installing the computer system into the *USE's trading floor*, at the foot of the Central district waterfront's latest imposing addition, Exchange Centre. Installation of the system and the training of broking staff are due to be completed for a December start-up, with the official opening cautiously *scheduled* for February or March 1986.

The USE's trading system is designed to make use of technology while maintaining traditional face-to-face contact on the trading floor. There will still be a price board on the market floor, but contacts between brokers and price quotes will be aided by the computer. This will link brokers by telephone and *record* each *deal done in* market hours. After-market trades will be unaffected.

Membership arrangements have been restructured, and for the first time, corporate memberships will be allowed. Individual memberships will continue, but partnerships will not be members—though corporate members will be able to form partnerships with individuals and non-members.

In Hong Kong, as in London's City revolution, the ownership of brokers by banks has been growing in importance. Banks' increasing interest was seen by the purchase of local stockbroker John Watson by the UK's County Bank, National Westminster's merchant banking arm. The USE will *bring* banks closer to the stock market, but with safeguards.

Directors of banks and deposit-taking companies will be able to be stockbrokers. But banks which own stockbroking firms must keep premises separate so the banks are not able to develop substantial stock trading networks through their branches away from the exchange floor. Banks may have to pay a premium for USE membership.

Though the Hong Kong stock market has traditionally swung violently on the whims and fears of local small investors, it is now becoming increasingly institutional. Some 135 unit trusts, controlling £10bn of invested funds, were authorised to deal in Hong Kong as of April. Of this, 59 were based in the colony.

Financial Markets

ALEXANDER NICOLL

With one recognised exchange instead of four, the process of institutionalisation is *expected* to *continue*. There remains, however, the hangover of the Eida and Carrian collapses, official reports on which have still to be published and perhaps contain a few more shocks.

To deal with that caution, and to speed the creation of a truly international market, the Securities Commission is considering changes to market regulations.

It is particularly concerned about concert parties—the ownership of large blocks of equity in a company by separate companies or individuals acting together. There are many such holdings held by interlocking families, and the commission aims to move *towards requiring disclosure* in phased stages. There could also be changes to the takeover code on the timing of announcements and on conditions attaching to offers.

A long-standing ban on short-selling stocks may be lifted to bring Hong Kong more in line with *international markets*. A reform of placement rules last year, designed to make it easier for small companies to obtain listings, has done nothing to end a dearth of new issues which has lasted since before the China/UK agreement on the colony's future.

Down the road at Hutchison House, the Hong Kong Futures Exchange is patiently awaiting futures trading legislation, expected to be passed in July, which it hopes will clear the way for its emergence as an important link in round-the-world exchange business.

The HKFE was born in 1977 as the Hong Kong Commodities Exchange, but never attracted much interest in its original cotton and sugar futures contracts. It also added gold, but only soyabeans have been able to obtain anything like respectable volume. Worse, it has been dogged by the failure of a large number of member firms.

Now under the energetic leadership of Mr Kim Cham, aged 39, the re-named HKFE is attempting a resurrection with emphasis on new financial contracts.

These, it is hoped, will attract not only local investors who have shown a singular lack of interest, but also international players on futures markets. Rivalry with the Singapore International Monetary Exchange (SIMEX) is intense.

The first new contract, expected to begin in October, will be a futures contract based on the key Hang Seng stock market index, which is notoriously volatile and should thus suit the purpose well. The HKFE's public profile could be aided by the fact that for the first time the Hang Seng Index will be calculated from minute to minute instead of only a few times a day. The HKFE will transmit the index to the USE, as well as latest prices on its own contracts.

Gold coin, currency, interest rate and freight rate futures are on the HKFE's agenda, as well as new commodity contracts in agricultural products grown in China.

The HKFE still has 153 members, and will admit banks and deposit-taking companies when the new legislation is passed. To be successfully relaunched, however, it will have to persuade participants that its strengthened surveillance and compensation fund arrangements are adequate.

Plugging the loopholes

Domestic Banking

MARY ANN SIEGHART

HIGH IN a slightly seedy office block above a McDonald's restaurant, a tailor and a sun-sun money changer, sits the office of Hong Kong's Commissioner for Banking. For Mr Richard Farrant, seconded from the Bank of England at the invitation of the Hong Kong Government to advise on banking supervision, the contrast with Threadneedle Street must be stark.

It is not just the working conditions that differ. In Hong Kong's latest banking scandal, the collapse of the Overseas Trust Bank, directors of the bank were caught trying to leave the territory with U.S.$1.5m in a suitcase together with diamonds and securities. Mr Farrant and his colleagues were left to clear up the mess.

On the Thursday the collapse was announced, all 44 branches of the bank were closed. The following day the Government confirmed it would take over OTB, and borrowed senior *managerial staff from the* Hongkong & Shanghai Bank to run it. By the Monday OTB was running again.

This says a lot for the ability of the Banking Commission to react speedily to crises. But the questions arise how such a collapse was allowed to happen, whether the commissioner's powers are stringent enough, and to what extent this sort of scandal will have knock-on effects and deter *foreigners from investing*.

The Government and the commission say OTB's problems arose through fraud rather than liquidity or solvency problems.

"New laws would not have helped," Mr Farrant says. "It is extremely difficult to spot these things when a management is determined to hide them."

Nonetheless, the saga supports the commissioner's claims that more regulation and supervision are needed in what is one of the freest international banking markets in the world.

That is not disputed by most of the Hong Kong banking community. Months before the OTB collapse the commissioner set out *proposals* for tougher regulatory powers. These would include minimum liquidity and capital ratios, more frequent audits and *supervision* over management. Also under discussion, prompted by OTB's problems, is deposit insurance.

The commission has some relatively tough powers but they are very specific, allowing loopholes.

"We hope to get back into the position where we can interpret the spirit rather than the letter of the law," Mr Farrant says. But he is aware of the problems of over-regulation.

"Hong Kong is a wheeler-dealing city, which gives it great strengths, but also makes it very vulnerable. We don't want to spoil the advantages of the speed of response and we know that the foreign banks come to Hong Kong because of its freedom from regulation."

Discretion

Minimum financial ratios for the banks are *proposed*—in the case of capital ratios, probably 5 per cent—but the Commissioner would have discretion to insist that the ratio for one bank is raised to, say, 8 per cent. Directors failing to comply would be committing a criminal offence and could have their banking *licence* withdrawn.

Banks would also be required to provide more information frequently to the Commissioner. Assessment would also be made of management quality.

"The standard of management is none too hot," Mr Farrant says.

Most bankers agree that capital ratios are necessary, though liquidity ratios can be fudged. The problems arise in deciding which banks need which ratios and whether Hong Kong branches of well-capitalised foreign banks need to comply.

Overseas Japanese branches particularly tend to be under-capitalised. But Mr Farrant thinks this should be *tolerated* providing the parent says it will stand behind its subsidiary and that the branch is not taking deposits from Hong Kong.

Domestic banks complain that the foreign banks will therefore be able to gear up further in what is already a highly *competitive market*. But Mr Farrant is unrepentant, as the domestic banks have a cheap retail deposit base not available to the foreigners.

Some bankers fear the degree of discretion allowed to the Commissioner. Mr Alan Smith, managing director of Jardine Fleming, says Mr Robert Fell, the current commissioner, has been "sound, not doctrinaire, and not taken in by powerful figures in the community. So I am confident if we give him discretion.

"But what happens with the next commissioner? If he is as good, *that's fine, but* it *would* be hard to take discretionary powers back if he is not."

With the collapse of OTB, many politicians are talking of setting up a deposit insurance scheme along the lines of the U.S. or the UK. In both the recent bank disasters, the *Hong Kong Government has* had to stand behind the banks to safeguard depositors' money. In the case of OTB that meant dipping into its exchange fund to the tune of HK$ 2bn.

An insurance scheme would mean, however, the biggest and best-capitalised banks paying the *largest* premiums.

Mr Peter Wrangham, general manager of Hongkong Bank, thought to have nearly half the deposits in the territory, points out: "We realise the need to safeguard the interest of depositors in general, but we don't see why the strong banks should subsidise their weaker brethren, who should not have been trusted with depositors' money."

Mr Farrant replies that "Any *one who is a good risk* does not like paying insurance for riskier people." The alternative—making each bank pay a premium commensurate with its riskiness—may be more logical but is political dynamite. "Who, after all, should be *allowed to determine* how well-run a bank is?"

After OTB many depositors, including foreign banks, are worried about *the stability* of other local banks. There has been a flight of quality. Hong Kong Bank and Standard Chartered—the two issuers of bank notes — have tried to ensure that no other local banks have had liquidity problems because they could not *borrow* in the interbank market.

Disclosure

Luckily, this crisis has hit the Hong Kong banking market while it has too much money. But with the meagre standards of disclosure for Hong Kong companies it is hard to find out whether a bank is sound.

It is not as if their underlying business is healthy. Loan demand has been weak. The property companies are only just starting to think about development *after the price* collapse in 1982-83, and corporate liquidity is high because companies had a good year exporting to the U.S.

The only real demand is in personal mortgages, and here margins have been squeezed. Banks used to charge about 1½ *percentage points* over the prime rate. Now the spread has fallen to between ¾ and 1 per cent and some banks are offering gimmicks to win business.

Cosmetically, the banks will probably have a better year in 1985 because they should be able to *write back some* of the huge provisions they took in earlier years after the property collapse. But that should not disguise the fact that there are still some local banks on the commissioner's intensive care list which are only slowly being nursed back to health.

Foreign investors' confidence will not be boosted by the fact that, in Mr Wrangham's view: "There is nothing to stop this sort of thing happening again."

Worries over future already forgotten

THE WORLD'S third largest financial centre is the title Hong Kong claims for itself — and woe betide anyone who says otherwise. A senior Bank of Japan official who suggested that Tokyo might have edged out the colony to rank behind London and New York was given a predictable roasting.

With more than 100 foreign banks, and the power to move markets well beyond its tiny territory, Hong Kong is one of the main international banking centres by any standard. Even the recent uncertainty about its political future has had little impact on its standing.

"The worry about 1997 is all over. Bankers have made up their mind to forget about it," the representative of a large U.S. bank said.

The decline of the international loan market, for which Hong Kong was the Far East centre, posed a greater threat. But Hong Kong seems to be making up for the loss of syndicated sovereign loan business in other ways.

Like Europe and the U.S., Hong Kong is witnessing the "securitisation" of the banking market: that is, the substitution of straight lending with pieces of paper that can be traded.

"Everything that happens in Europe comes here after a bit of a lag," an American banker said.

Tradeable loan participations, floating rate notes, and note issuance facilities (NIFs) have all put in an appearance, though for local tax reasons they may not always match their Euromarket equivalents.

Hong Kong claims to have invented the NIF in 1978 with a $500m deal assembled by Citibank for New Zealand, but the trend took several years to catch on.

Bankers complain, however, that Asian corporate treasurers are slow to adopt new techniques. But there is also a large potential market in persuading creditworthy countries in the region to refinance syndicated loans with new-fangled instruments at lower cost.

Indonesia has done a $400m NIF, while Malaysia and Thailand seem likely candidates.

The Hong Kong authorities are concerned about the fast growth of contingent business represented by NIFs. They have circulated proposals on how to deal with it as part of their broader effort to strengthen banking supervision.

They have proposed that contingent liabilities are given a full weighting for capital adequacy purposes, compared to the half weighting set by the Bank of England. Hong Kong bankers expect to be able to bargain the figure down.

The huge size of the capital markets and the opportunities for international deal-making means that large banks from the U.S., Europe and Japan maintain active merchant banking operations in Hong Kong.

International Banking

DAVID LASCELLES

Some have also gone into the domestic securities business by acquiring local stockbrokers. Citicorp bought Vickers da Costa, while National Westminster Bank took on Watsons and tied it in with County Asia Securities, its merchant bank local subsidiary.

The renewed strength of the Hong Kong stock market has given a boost to these alliances, though foreign acquisitions of Hong Kong stockbroking interests have not always been successful. Paribas' and Merrill Lynch's suffered a disastrous tie-up with Sun Sung Kai.

Dynamic though Hong Kong is as a banking centre, many foreign bankers admit that life is tough—and not specially profitable. Apart from being badly over-banked, quality business is scarce.

"It's very hard to find anything good to do, one UK banker admits.

Property and shipping, two of the colony's biggest industries demand the greatest caution. Bank Bumiputra of Malaysia was the largest, but not the sole foreign bank to suffer. Barclays Bank wrote off £66m of bad loans last year, mostly property-related. The recent crisis of the Overseas Trust Bank, and the Hang Ling Bank , also point to the need for caution in inter-bank dealings.

Bank of America, Banque Nationale de Paris and Barclays have also retreated from the domestic retail market, which is intensely competitive and dominated by the strong local banks.

Some U.S. banks, notably Citibank, have taken a big crack at the local deposit market with some success however.

Trade finance offers large opportunities and has become a staple for many banks. Foreign bankers are also cultivating large local companies. Utilities and enterprises owned by both the Hong Kong and Chinese governments for loan and fee - earning business. Barclays arranged a $100m deal for the new Hong Kong mass transit authority on the U.S. commercial paper market.

Midland Bank is concentrating on foreign exchange markets, and has begun to quote options. Bankers are also jockeying for position in the financing of the new cross-harbour tunnel.

The big hope is that the opening up of China will yield the big bonanza everyone has been waiting for. Already China provides banks with a large chunk of business—mostly project finance for hotels, and trade finance. But that is small beer compared with the billion dollar deals and massive energy and industrial projects that must come.

Meanwhile, banks are having to weigh up the benefits of opening branches in the new economic zones designated by Peking. The cost will be large —between $250,000 and $500,000 a year by most estimates—and the rewards hard to gauge. Most bankers fear that competitive pressure will force them in against their better judgment.

The big strategic decisions that international banks will have to take will probably have less to do with 1997 than with the growing challenge to Hong Kong posed by Japan as it liberalises markets.

Hong Kong offers the greater and more varied opportunities for foreign banks. It also has back-up like lawyers and accountants. But many bankers believe Tokyo will eventually dominate the Far East financial time zone, and are already preparing for it.

"You had better make sure you are in both markets," one U.S. banker said.

Sisters in prosperity

THE 12 "sister banks" which operate in Hong Kong under the umbrella of the Bank of China were once regarded as a ramshackle array of left-overs from the 1949 revolution. But in the eight years since Peking introduced its policy of opening up to the outside world, their role has been transformed — with important consequences for the territory's banking industry.

Since 1979 the sister banks have become an organised banking force that is now second only to the Hongkong & Shanghai Banking Corporation. They account for about 270 branches — a dozen or so less than the Hongkong Bank —and operate about 400 automatic teller machines, again on a par with the Hongkong Bank group.

They have won a significant share of Hong Kong's retail business — particularly among the more patriotic working classes. They account for deposits estimated at HK$60bn — about 15 per cent of the territory's total.

Yet little is known about the sister banks. Their dealings are done discreetly, hidden from view by Hong Kong's "no questions asked" regulatory environment. They seldom collaborate with banks outside the Bank of China group. Few of their managers speak English, and most keep a low profile.

The banks in the group (in Chinese the Zhongying Jituan) were, up to 1949, the Hong Kong branches of banks incorporated in different parts of the mainland. In the wake of the Communist revolution, all banks on the mainland were nationalised and absorbed into the People's Bank, China's central bank.

Even today only four of the sister banks are incorporated in Hong Kong—the Nanyang Commercial Bank, the Chiyu Banking Corporation, the Huachiao Commercial Bank and the Posang Bank. The other eight maintain the fiction of a head office in Peking, though this is in most cases just a nameplate at the Bank of China's headquarters.

With the overthrow of the Gang of Four, and Deng Xiaoping's ascent to power, Peking's commitment to opening up to the outside world gave the sister banks a new significance. They were under pressure to garner foreign exchange for the country's modernisation, provide funding for growing external trade, provide training for a new generation of Chinese bankers, and most recently to help maintain the stability and prosperity of Hong Kong up to 1997.

The turning point was the arrival of Jiang Wengui five years ago to set up the BoC's Hong Kong and Macao regional office. Until then the sister banks' operations were uncoordinated, and often at odds with each other. From 1981 they have answered directly to this office. Two Macao banks also answer to Mr Jiang, the Nantong Bank, and the 50 per cent-owned Banco Taifung.

There have been strict limits on the amount any sister bank can lend without reference to the Bank of China — HK$20m for secured loans, and HK$5m if unsecured. Banks like the Posang have retained their role as specialists in bullion trading while others have consolidated traditional roles, such as financing Hong Kong's meat and vegetable imports from the mainland.

Bank of China

DAVID DODWELL

As time passes divisions have begun to blur. The banks use a common electronic clearing system and are supervised in the same way. It has become more important to note which are most strongly capitalised and which more aggressive and innovative.

Three sister banks seem the most dynamic:

- The Nanyang Commercial Bank, which has led organisation of international syndications for loans inside China, and credit cards and travellers' cheques.
- The Sin Hua Trust Savings and Commerce Bank, which has developed strong links with U.S. banks and businesses.
- The Kincheng Banking Corporation, which has strong Japanese links. It has set up a merchant banking venture with Japan called Kincheng Tokyo Finance.

The instruction to foster Hong Kong's stability and prosperity has led the sister banks deep into the territory's manufacturing sector. Many investments are disguised but involvement has been clear in property development, in warehouse construction at Hong Kong's Kwai Chung container terminal, and in funds for the Mass Transit Railway Corporation.

Sister banks are also supporting some of the consortiums bidding for the HK$3bn contract to build a second cross-harbour tunnel in Hong Kong.

Less happily, they have found themselves suporting some of Hong Kong's lame ducks. These include Conic Investments, the electronics group that had to be rescued last year; China Cement ,the loss-making cement manufacturer; and Millies, the retail chain spanning Hong Kong and Shenzhen which went bankrupt.

They have been important conduits for overseas Chinese investments inside China, particularly in hotel construction and in the 14 open coastal cities. The Bank of China has allotted to each of the sister banks responsibility for channelling investment from Hong Kong into particular open cities. They have at the same time taken steps to become more international. Zhang Xueyao, the Bank of China's new head, was until recently head of the bank's New York office. Some 20 finance companies have also emerged under the BoC umbrella, many increasingly active in merchant banking.

Apart from Sin Hua's links with the U.S. and Kincheng's with Japan, the Nanyang Commercial Bank has opened a branch in San Francisco and applied for a licence to open in Toronto. It has a full service branch in Shenzhen.

The Kwangtung Provincial Bank is applying for a branch operation in Shenzhen and claims to have an office in Singapore.

As well as loans for ventures in China or Hong Kong, they have become involved in project funding overseas. One for an Australian venture was agreed early this year.

Sister Bank links with China's 14 open Coastal Cities

Bank of China	Shanghai, Beihai
Bank of Communications	Lianyungang, Nantong
China and South Sea Bank	Qingdao, Yantai, Hainan Island
China State Bank	Dalian, Hainan Island
Chiyu Banking Corporation	Xiamen
Hua Chiao Commercial Bank	Xiamen, Shantou
Kincheng Banking Corporation	Shenzhen, Shanghai
Kwangtung Provincial Bank	Zhanjiang, Guangzhou
Nanyang Commercial Bank	Dalian, Tianjin
National Commercial Bank	Ningbo, Wenzhou
Po Sang Bank	Qindao, Yantai
Sin Hua Trust, Savings and Commercial Bank	Tianjin, Fuzhou
Yieu Yieh Commercial Bank	Qinhuangdao

PROFILE:
MICHAEL SANDBERG

'Taipan' set to retire

MR Michael Sandberg does not look the most powerful man in Hong Kong. Yet of the three most important jobs in the territory—chairman of Hongkong and Shanghai Bank, chairman of the Jockey Club and Governor—he holds the first two.

He may have missed out on the third, but he can console himself with a seat on the Executive Council, the Governor's cabinet.

Nor is he any ordinary bank chairman. As a fellow banker points out, "The chairman of the Hongkong Bank has total and absolute power."

No shareholder is allowed to own more than 1 per cent of the shares of the bank. Even the board of directors is less powerful than many others. Since most of the members are selected from the ranks of the bank's biggest customers, they can exercise little supervision over the bank's business. If they were allowed to scrutinise the books, they could gain valuable information on their competitors.

Mr Sandberg does not believe in committee management anyway: "We've never had committees—they take so long," he says.

As a result, Mr Sandberg has little problem getting his decisions through. When he announced that the bank's new head office building would cost more than HK$1bn many bank staff and shareholders were shocked. As the bank employees prepare to move in, cost overruns have pushed the total up to around HK$5bn.

At least, he says, "It will be very efficient and cheap to run."

Among Hong Kong people, Mr Sandberg seems to have a reputation for expensive tastes in buildings. His house, called "Sky High," is up on the prestige Victoria Peak.

Mr Sandberg has been chairman for eight years. He has built up a North American presence by buying Marine Midland Bank and was frustrated in his ambitions to move into Europe when the British Monopolies Commission blocked his bid for the Royal Bank of Scotland.

He also presided over the biggest property collapse in the history of Hong Kong when the Carrian Group, to which he was banker, went bust in 1982.

He joined the bank in 1949 straight out of an Indian cavalry regiment, attracted by the idea of staying in the East. He spent eight years in Singapore and four in Tokyo before moving back to Hong Kong.

Now, at 58, as retirement looms, he is planning to return to Britain. He has kept a house and a brood mare there and is relatively sanguine about the upheaval of moving.

"I find myself getting mildly annoyed with Britain when I read about things like the miners' strike," he says. "But when I go back, I fall in love with it all over again."

Hong Kong is rife with gossip about when he will retire and who will replace him. He did not deny the suggestion that he will step down once the new building is formally opened next April or May.

His successor seems likely to be Mr Willie Purves, executive deputy chairman. Mr Sandberg does not rule out the possibility of the bank having a Chinese chairman one day.

But he admits: "We have been criticised rightly for not promoting Chinese executives quickly enough. We have been very slow. We are trying to amend that, but people have to move through the system."

Having been "tai pan" (big boss) in Hong Kong for so long, it will be strange to retire to the UK. But he should have enough interests to keep him busy.

He is a vice-president at the Oval, Surrey's cricket headquarters, and a member of the MCC, though he does not play cricket any more: "My enthusiasm was always greater than my ability."

He collects fob watches and owns racehorses in both Hong Kong and Britain.

But he is unlikely to make any money backing his horses. "I don't bet," he says. "I'm far too mean."

Mary Ann Sieghart

Massive spending boosts services

Transport

MICHAEL CASSELL

KEEPING 5.5M residents on the move in one of the most densely populated places on earth represents a daily challeoge capable of testing to the limit Hong Kong's famous energy and ingenuity.

Most of the population live in an urban area of under 100 sq kilometres around one of the world's busiest harbours. Every day, more than 8m passenger journeys are made on a public transport system that includes two railway networks, buses, trams, minibuses, taxies and ferries. Private cars, for those who can manage to afford and park them, add to the potential cocktail of chaos.

Hong Kong's travel problems have become as famous as its floating restaurants and its festivals, a part of the colourful pandemonium visitors are encouraged to expect. For residents, however, the daily reality of crushes and queues has for years been one of the less attractive aspects of life in the territory.

Recently, however, the picture has been changing and there is widespread evidence thet the massive programme of capital expenditure aimed at extending and improving the territory's transporation system has started to pay off.

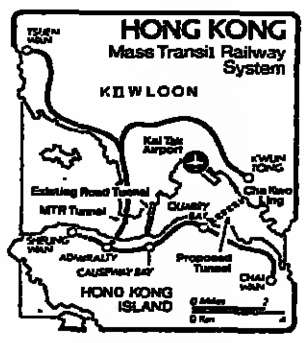
Just about every element of the transportation system, from the Mass Transit Railway, to the roads on Hong Kong island, the buses which use them and the Kowloon-Canton railway have benefitted from heavy spending programmes. The Governmeot, which runs none of the transport undertakings itself, is clearly encouraged by the recent improvement in services, though noi yet content.

Mr Ian Macpherson, Secretary for Transport, sums up the situation: "The principal challenge is handling the vast numbers of people involved in a highly mobile workforce. No more than 10 per cent of the population owns or has access to a car."

Mr Macpherson emphasises that decantation to the new towns has become an increasingly significant factor in Hong Kong's transport network. Although the new centres of population are seen as self-sufficient centres, job opportunities have nnt kept up with population growth, so large numbers of residents still have to commute daily to work.

At the core of the territory's transport system is the Mass Transit Railway, which has now been operational for 10 years. This May, the new Island line opened to the public and when work on it is finally complete next summer, the MTR network will extend to 27 stations over a 38 km route.

The HK$11bn Island line is expected to generate an extra *300,000* passengers a day for the MTR system, now carrying around 1.2m people a day. The likely increase in passengers represents a fall from projections made when the Island Line was given approval in 1980, principally because of improvements in local bus services—mede possible by reduced road congestion and larger passenger vehicles.



In its last annual report, the Mass Transit Railway Corporation had to concede that increasing competitinn and resistance to MTR fare increases led to a small fall in the number nf passengers carried in 1984—down by 1m to 411m.

There is also scome concern that the railway could be adversely hit by the construction of the second harbour crossing, if the new link is confined to a road tunnel only. Tenders are in for the project—the nine bids come from names like Kumagai Gumi and Hopewell Costain—and a decisioo is due by the end of the year. The tunnel, to cost HK $1.8bn upwards, depending on the nature of the link, should be operational by 1988.

Overshadowing the MTR's short but impressive history are fears over its financial position. The corporation has become the largest borrower in Hong Kong.

The corporation has raised HK $24.5bn for investment in the underground railway network and, at the end of 1984, total loans outstanding stood at HK $17.75bn.

Last year, the MRT Corporation recorded, after interest and finance charges, an operating loss nf HK$545m and it has given a warning that, because interest on loans raised to finance the Island Line has been capitalised during construction and must now be charged to the profit and loss account, shareholders' funds are rapidly drying up.

Concern that the corporation's liabilities could eventually exceed its assets have been forcefully expressed to the Government, its only shareholder, which is actively considering plaos to improve the railway's financial health. The corporation is confident thet the the position in respect of shareholders' funds will be rectified shortly.

The MTR's above-ground counterpart, the Kowloon-Canton Railway Corporation, incorporated at the eod of 1982 and still wholly owned by the Government, is also currently recordiog net losses in the wake of its HK$3.5bn electrification and modernisation programme.

In 1984, losses fell back from HK$154m to HK$65m and debt outstanding to the Governmeni was cut to the prescribed HK$1bn. Mr Peter Quick, managing director of the KCR, says the Government clearly expects a return on assets after its huge investment and that the railway "should be profitable within a few years."

The modernisation programme has quickly started to pay big dividends and the increase in traffic has taken the corporation itself but surprise Last year, the railway carried upwards of 250,000 passengers a day—five times more than in pre-electrification days—an improvement which reflects population growth, the attractions of the new service and growing traffic to and from China. The KCR expects the number of passengers carried by the system to reach 500,000 daily by the early 1990s.

The railway is now the mejor carrier of people to and from China, with just over 13m people making the journey lest year. In 1984, 17 per cent of the railway's total revenue was derived from freight traffic, the overwhelming proportioo of it moving south across the border into Hong Kong.

The KCR is also deeply committed to the construction of a 34km light rail transit system to serve the public in Tuen Mun and Yuen Long, western New Territories. The first HK$ 1bn phase of the network is now out to tender and the five international consortia—from Belgium, Canada, United Kingdom, Australia end Japan—will know the outcome this summer.

The first phase of the light railway, accounting for about 70 per cent of the proposed system, should be complete by mid-1988. When finished in the 1990s, the total network, which has aroused the interest of transport authorities around the world, will be capable of moving 70,000 passengers an hour, to become the backbone of an integrated public transport system for the region.

Back on Hong Kong island, the Government, which provides HK $2bn a year for the territory's transport infrastructure, is poised to decide some time this year whether or not to introduce its most radical attempt yet to solve the problem of traffic congestion.

Since 1983, when car tax was doubled and first registration tax was raised, around 28 per cent of the local car population has been taken off the roads. Even so, there are sufficient numbers to create regular chaos on the territory's limited road network.

But aware of criticism that such blunt fiscal measures meant people living in the outlying arees were being penalised along with those using the most congested, central areas, the Government devised its electronic road pricing concept, designed to impose a "pay as you drive" tax on car owners.

A system of loops embedded in the road surface, combined with electronic number plates attached to vehicles, monitors traffic movement and imposes a charge on individual vehicles. The average motorist could face a monthly bill of eround HK$100, rising to HK$300 for some and estimates suggest the system could cut peak traffic by about 10 per cent. The Government is warning that, whichever path is chosen, a failure to resolve the traffic problem could lead to a total "lock-up" nn the roads by 1991.

A pilot scneme in Central has been working well and a decision on whether or not to sanction its widespread introduction could come this yeer.

Buses have been hit by the MTR and KCR, elthough they remain cheap and convenient and still manage to carry an estimeted 60 per cent of the travelling public. As for the territory's colourful, crowded trams, there are fears over whether they will continue to have a role in a community where the art nf good public transport has made enormous advances in recent years.

香港

Infrastructure

Moving large numbers of people by land and air, and a growing volume of goods by sea have involved heavy investment—and some controversy. Substantial spending on property, meanwhile, is looking more credible

Back from the depths of trauma

Property

MICHAEL CASSELL

THE Hong Kong property market appears finally to be back on its feet, though any claims of a complete recovery remain premature.

After the disasters of the last few years—which saw acres nf unwanted space, rent and price collapses of 50 per cent or more, and endless corporate dramas—the real estate sector has regained some of its old self-confidence.

A strong manufacturing and *export-based performance* in 1984 combined with the Sino British agreement helped the property market pull out of its spectaculer nosedive. The agreement had plenty to say on property and helped clear up many nf the fears which had helped traumatise the long-term investment merket.

Of particular importance was Annex 111, which confirmed that leases extending beyond 1997, including 75-year leases renewable for 75 years and 999-year leases—would continue unchanged and be recognised and protected under the lew of the special administrative region after 1997. The appointment nf a Land Commission to implement the annex was also announced, although considerable uncertainty remains over its responsibilities.

There is an understandable reluctance to claim that all the difficulties are over with the political air cleared and the economy improving. But there is no mistaking the general air nf optimism which has crept back.

Last yeer, according to chartered surveyors Collier Petty, about 5.5m sq ft of office space was taken in Hong Kong, a 20 per cent increase over the previous 12 months. Take-up of flatted factory buildings rose by about 18 per cent, and similar positive trends were evident in the residential market.

Throughout the recent difficult days, retail has managed to remain buoyant because *purchasing* power was maintained and tourism continued to boom.

Overpricing

According to Mr George Doran of Colliers: 'The office market has experienced an *across-the-board improvement* over the last year and we expect the recovery to continue, although we do nnt anticipate anything spectacular. A continuing, general oversupply of space shnuld be useful in helping to dampen dnwn rents."

Once again the residential sector seems to be leading the recovery, with demand quickly improving and signs that land prices are rising to reflect higher levels of interest. During 1982 and 1983, private housing output fell tn almost two-thirds of peak 1981 levels as the market adjusted tn nversupply and falling prices and rents.

By the end of 1983, prices were standing as much as 40 per cent below thnse of two years earlier. Recent events have shown that the main problem was nver-pricing rather than any *serinus lack nf underlying* demand.

Brokers Hnare Govett say there is much greater price and renial value uniformity in the residential sectnr in contrast tn the wide differentials which prevailed at the tnp nf the bonm. This narrowing in quality, size and locatinn premium reflects a more realistic approach by develnpers tn pricing pnlicy, and it appears tn be a winning fnrmula.

But there are already fears that the recovery will have an unwelcome impact on prices. The residential sector has taken off in the last three months, particularly at the luxury end of the market, Mr Doran says. He cites two similer land sales e year apart reflecting a threefold increase in value.

Office property is eojoying e more modest recovery, although there has been an improvement in sentiment and activity. Having been drowned in oversupply up until the end of 1983 (total stock neerly doubled to more than 41m sq ft between 1978 and 1983), the return of business confidence and widespread availability of premises at bargain rates have continued to help reduce vacant accommodation.

Occupiers are taking advantage of the buyers' market tn upgrade and extend accommodation, often without any increase in accommodation costs. Rent-free periods, longer leases and stipulated rent review increases continue to demonstrate on which side of the tenant-landlord fence most of the advantages still lie.

Given present rates of take-up, however, that position could soon start to change, and overall supply and demand equilibrium might be nearer than many would have dared suggest a few months ago. By the end of this year, overall vacant space could be down to about 5m sq ft (one year's supply at current rates), *implying* scope for rental and capital increases in some markets.

Already in Incatinns like Tsim Sha Tsui, an nffice market which until recently was characterised by high vacancy rates, shnrtages of gnod space are nnw reported. Over the last year rents have risen from about HK$7 to HK$8 per sq ft a month to abnut HK$10.

Tsim Sha Tsui is now 90 per cent occupied, as is Harbour City. Silvercnrd is virtually fully let and New Wnrld East Wing is also fully occupied.

In Waochai, the supply nf space is dwindling and buildings like Great Eagle and Harbour Centres are filling up.

The netural focus of attention, however, is Central District, Hong Kong's fiancial core and the hub of the office market. Central suffered badly in the crash and it is to this market that observers look for evidence that an improvement is nnder way.

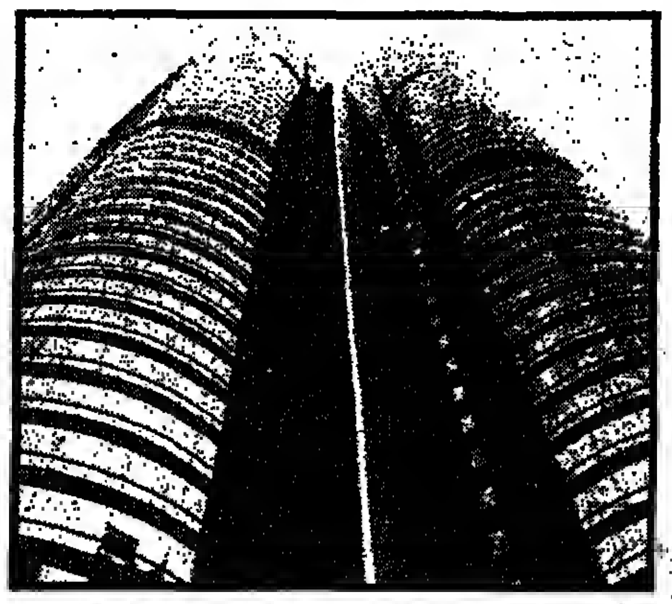
There are grounds for encouragment. Some tenants ara moving beck from locations chosen when Central became too expensive while nthers are *arriving in* Hong Kong for the first time. This improving demand is beginning to bite into the supply of office accommodatinn which still overhangs the market.

Revived interest is shown by tenants' preference for top quality space. Tha few new buildings to have coma on stream recently have proved more successful in attracting tenants than their older, cheaper competitors.

Hongkong Land has let about 75 per cent of the Hong Kong Club building (its only new development to become available in 1984), largely to Japanese banking and financial institutions at about HK$17 a sq ft.

The arrival of overseas tenants is playing a big role in the market's revival. Mr Jeremy Stewardson nf chartered surveynrs Jnnes Lang Wootton, says that there has been an upsurga in regional interest in Hong Kong as an office centre since last year's political agreement.

"We have saen an influx of foreign businesses in recent mnnths," he says. "The level nf inquiries has risen sharply and some businesses new to Hong Kong have already moved in. They are cnming from Singapore, Indonesia and Japan and there is also greater interest from several European countries."



HongKong Land's Exchange Square, a 1.2m sq ft office development, is 40 per cent let but at rents well below what must have been originally expected.

Many new arrivals will head straight for Central, giving rise to hopes that the prime office market will not tighten further. Ironically, Hongkong Land is adding to the end-1984 vacancy rate of 8 per cent with the completion of Exchange Square, the 1.2m sq ft office centre which represents about three years' take-up in Central.

Exchange Square is nearly 40 per cent let. Some tenants are moving from one Hongkong Land building to another.

Encouraged

Rents being achieved at Exchange Square provide a measure of how badly the market fell apart from 1981. Hongkong Land is asking HK$19 to HK$23.50 a sq ft plus HK$2.25 service charges for space in the territory's premier building. It is probably settling for about HK$16 to HK$18 a sq ft when concessions are taken into account.

At the peak, Central rents hit HK$30 a sq ft and Hongkong Land must have been expecting HK$40 a sq ft or more when the go-ahead on Exchange Square was given.

Present supply and the impending increase in evailable spece created by other major developments in the pipelina means tha outlook for rental growth appears limited. When the Hong Kong and Shanghai Bank building is completed later this year, for example, it will release up to 350,000 sq ft of space in Admiralty Centre and the China Building.

Tha Government will, similarly, leave substantial floorspace behind when it occupies its newly-developed premises in Central and Wanchai. Encouraged by recent evidence of improving values, the Government would add further to the longer-term supply by releasing more *land fnr development.*

Mr Stewardson believes there is some room for modest, medium-term rental growth hnt cannot see a return to the previous peak levels. He suggests top rents of HK$28 a sq ft by 1988, when the second phase of Exchange Square comes onto the market.

In spite of continuing caution, the market is mnre confident than for several years. Rents and prices have bottomed even if general oversupply will continue to hold the situtaion in check for some time.

But there are dangers even in revival. Any significant upturn in values could quickly flush nut sellers from the larga numbers of reluctant property investors left holding some shaky assets during the last crash and waiting for the opportunity tn realise them at reasonable prices. That could halt any recovery, as cnuld any change in what must still be e potentially voltatile political and econnmic climate.

Fnr the time being, however, nptimism is back.

Fleet shrinking but port traffic booms

Shipping

LARRY KLINGER

THE MOOD among Hong Kong's shipowners, whose fleet numbers among the world's four biggest with the U.S., Japan and Greece, is uncertain.

They feel that 1983-84 may have been the bottom of the 10-year depression in shipping and see signs that supply and demand may be starting to come back to equilibrium. But they cannot foresee any return to real growth until the 1990s, with continuing world overcapacity threatening to drive weak companies out of business.

On the other hand, the mood in the territory's port, both among the authorities and operators is decidely optimistic. Much empbasis is placed on Hong Kong's achievement in maintaining its strong export performance, in spite of a flagging world economy, and on the booming entrepot trade with China.

The major expansion programme in the Kwai Chnng container port is continuing, and the Government bas just lannched its consultative process aimed at creating Hong Kong's own shipping registry in anticipation ofthe reversion in 12 years' of sovereignty over the territory to the mainland.

The Hong Kong fleet has withstood the crisis better than most because of its long-standing conservative tradition of ordering new ships only when charters have been arranged or are in firm prospect. Executives continue to spell out this policy with some pride, but like their counterparts in other countries they are feeling the pinch: charters are expiring, and the recent collapse of what were thought to he gold-plated charter-holders, especially in Europe, has hort.

The fleet has been shrinking, from 60m tonnes a few years ago to 57m (or even 55m according to some estimates). For instance, Worldwide Shipping, the Hong Kong leader and once the world's largest independent, controlled some 20m tonnes in 1981 hnt now has only 9m. It has not placed a new building order in three years.

Wah Kwong, the territory's third largest owner, is still managing to sell old vessels and to buy new ones, but this year, it has not placed an order in Japan for the first time in 20 years.

Hong Kong executives say there is not enough scrapping taking place world-wide to make a big enough dent in overcapacity for freight rates to rise significantly. Ship-building nations seem unable to end their subsidies because of the need to protect jobs and maintain their companies for prestige and strategic reasons, the Hong Kong executives say.

In bulk carriers, for instance, estimates pnt current scrapping at between 5m tonnes to 6m tonnes annually. "What is needed to make any real effect is 10m tonnes a year," says Mr Helmut Sohmen, senior-vice-chairman at Worldwide.

Difficulties

"There is still abont 30m tonnes of dry bulk carriers on order to he delivered by early 1987. That, even with deferrals end cancellations, could mean 1m tonnes per month."

Many smaller companies are reported as being in serious difficulties. Some which had 18 to 25 ships in the recent past now have only two or tbree, having run through a series of distress sales to finance remaining ships. One company, having bought a "handy-sized" bulk carrier for between U.S.$11m and U.S.$12m two years ago, is trying unsuccessfully to sell it for around U.S.$8.5m.

However, the majors are confident that they will be around to take advantage of an eventual npturn, however painful the interim may he.

"Hong Kong has lived through the depression longer and more comfortably than many others and should not lose out, given its expertise in management and finance. Shipping is not going to disappear. It is needed to fuel world trade. You can't air-freight iron ore, coal, timber or nil," Mr Sohmen says.

The hig groups also think the upturn could now slowly hegin. Encouraging factors include declining interest rates. Shipowners quote current rates in Europe at about 9 per cent against 16.5 per cent previously and in Hong Kong at ahout 8.5 per cent against 17 per cent earlier.

Other points being made are:

- The tendency to subsidise shipbuilding is slackening in many countries, notably in Britain, West Germany, Holland, Spain and Sweden, and more ships are being laid up.
- Freight rates may at long last be improving. Tramping rates have certainly climbed, and it is thought that liner rates might soon stabilise at bigher level. One executive noted panamex rates for certain categories at between US$6,000 and $7,500 per day against rates of $4,000 not long ago.
- World steel demand is improving, led by the U.S. and Japan.
- The U.S. dollar, to which the Hong Kong dollar is pegged, is declining, and this should spur Hong Kong exports, especially to Europe as currencies there appreciate against Hong Kong's.

Ironically, the strong U.S. dollar was in past the reason for the port's continued bigh growth. "With the strong dollar able to vacuum up exports, the containers kept coming back, even if they were empty, because Hong Kong was the seller to America," a port official said.

Port growth bas been running at about 10 per cent annually, and this was maintained in the first quarter of this year, with cargo discharged up nearly 4 per cent and cargo loaded up about 20 per cent.

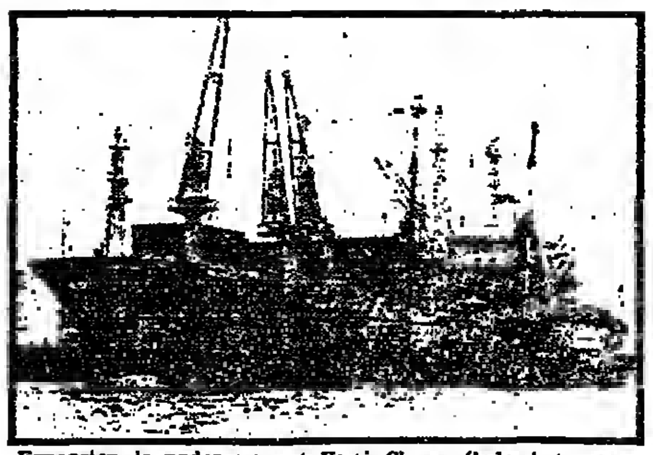
"The future is still hard to predict, however, because of the world trend towards protectionism," an official said "We were predicting 5 to 6 per cent growth and got 10 per cent. The U.S. is slipping, but trade with China is booming.

"Pearl Piver barge exports are up more than 90 per cent over last year. There is also some action from Eurnpe, especially in cars for roll-on-roll-off."

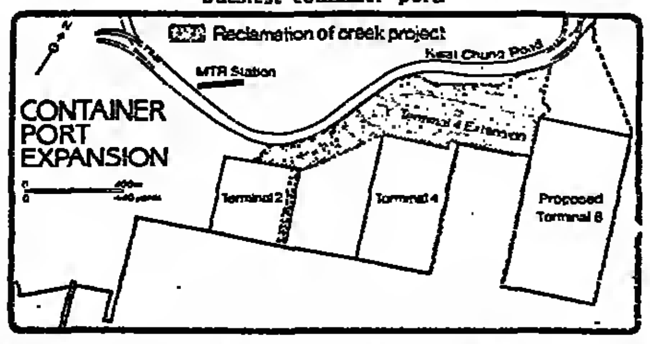
The really remarkable growth is in the port's container trade, expected soon to ovetake New York as the world's second busiest after Rotterdam. Hong Kong is already first in terms of intensity of space usage.

Modern Terminals Ltd (MTL), which together with Hongkong International Terminals (HIT), handles about 80 per cent of the port's container traffic, says its growth last year was 17 per cent but it expects only 1 per cent to 2 per cent this year.

"This will, nevertheless, maintain our trend over the past seven or eight years, when growth fluctuated between 2 and 18 per cent to give us an average of 8 per cent," said Mr Andrew Milliken, general manager of MTL terminal operations.



Expansion is under way at Kwai Chung (below) to cope with growth expected to make this the world's second buesiest container port.



Current expansion is designed to provide much-neded supplementary room for container marshalling and involves a HK$650m investment to reclaim land in the Creek area hebind the existing terminals, and the purchase of the latest bandling equipment.

Guarantees

Tripartite negotiations hetween MTL, HIT and the Government are at an advanced stage on a HK$2bn project to create a 70-acre sixth terminal. This, together with tbe existing work, will roughly quadruple the size of the container port. It is hoped that terminal six will be complete in 1989

"This is our answer to those wbo keep talking about Hong Kong's uocertainty over the future," said an official. "We believe, at least as far as the port is concerned, that China guerantees our future."

The Government is also looking towards the future witb China and has published first proposals* aimed at establishing Hong Kong's shipping registry hefore the territory leaves British control.

Tbe registry is provided for in the Sino-British agreement on the 1997 transfer of sovereignty. It will be allowed to issue certificates under Hong Kong legislation in the name of "Hong Kong, China." The proposals also envisage the establisbment of a government-appointed Shippiog Advisory Board to comprise officials and others representing shipowners, shippers, geocral business interests, banks, insurance companies and unions.

Sbipowners gave it a cautious welcome. The Hong Kong Shipowners Association said the government's views were well-defined and that the 10-week period for public response was generous. "There are basic differences in the goveroment's views from those of the shipowners, but there is also much unanimity as well, it said.

Individual shipowners say that they bave been asked by the government to limit public response untill all views of interested parties are on the table. Privately, however, they say that there are many difficult technical details that need to be agreed, because they believe that hasing the new registry too closely on current Britisb legislatioo would not be adequate to meet today's needs.

However, both the government and the industry maintain that they are in agreement that the registry will not become a flag of cooveoience aod thet its requlrements will be stringent.

* *The Hong Kong Register of Shipping, Economic Services Branch, Government Secretariat, May 1985.*

Dragonair flies into controversy

HONG KONG'S air licensing authorities are preparing for controversies likely to have far-reaching implications for carriers using the territory — particularly Cathay Pacific, and especially on routes into mainland Cbina.

The Immediate focus for controversy is Dragonair, a new airline that only two weeks ago took delivery of its first aircraft, a leased Boeing 737. Within two months Dragonair plans daily charter flights to Shanghai and Peking. It aims to capture a significant sbare of the air traffic between Hong Kong and China's two main cities.

Until a month ago the venture attracted little attention. But one official said: "We have come face to face witb the fact that this is no hack affair. Dragonair has a strong organisation, strong fioancial backing, and powerful political support.

"They still have a long way to go but seem determined to make significant inroads into Hong Kong-China routes — and might succeed."

Dragonair's application for an air operator's certificate is still in the hands of Hong Kong's Civil Aviation Authority. Applications for liceoces to fly daily charter routes to Peking and Shanghai can be made only when the certificate has been cleared. But the signals are that its leased Boeing may be making its maiden run into China by the beginning of August.

Air traffic rights into and out of Hong Kong are a sensitive affair. Kaitak Airport is close to capacity, and it is a lucrative stopping-off point in most airlines' regional and global route plans.

But most important, as the territory moves closer to control by China, so the allotment of flying rights has become a symbol of Peking's williogness to give Hong Kong the "high degree of autonomy" it promised under the Sino-British agreement.

Air traffic rights became one of the most intractable subjects during the two-year negotiations over Hong Kong's future through fear that CAAC, which acts both as China's national airline and its eviation authority, would seize e unique opportunity for self-aggrandisement after 1997. By controlling the right of airlines to fly into and out of Hong Kong, it could strengthen its international route network, and undermine Cathay Pacific, which is Hong Kong's *de facto* flag carrier even though it is British-owned.

Cathay succeeded in convincing negotiators that anything undermining it would also be seen as undermining Hong Kong's autonomy. There were sighs of relief when the agreement provided leeway for the post-1997 Hong Kong Government rather than Peking to negotiate air service agreements "for airlines incorporated and having their principal place of business in Hong Kong" for with China. The only eligible airline under these criteria was Cathay.

Airlines

DAVID DODWELL

Dragonair is potentially controversial because it has been incorporated locally, and will be based in Hong Kong. With backiog from China, it would be able to usurp Cathay.

The fear may seem distaot and exaggerated, given the maturity of Cathay and its formidable reputation. But that takes no account of the people who own Dragonair. The Hongkong Macao International Investment Corporation, set up days after the Sino-British agreement has backed the airline to the tune of HK$500m. Its tist of 31 main shareholders includes the richest and most influential of Chinese businessmeo.

They include Sir Yue-Kong Pao, who heads the Hongkong and Kowloon Wharf and Godown Company, Mr Li Kashing, who heads property group Cheung Kong and the trading and property group Hutchison Whampoa, Mr Henry Fok, who has extensive property and business interests in Hong Kong and Macao. T. K. Ann, who heads the textile group Winsor Industrial, and Chao Kuang-Piu, whose Novey Enterprises is among Hong Kong's biggest garment companies.

Tbe Bank of China holds a 22 per cent equity stake and Peking's main trading arm in Hong Kong. China Resources, holds 12 per cent.

With such backing, the airline's influence inside China is second to none. Hong Kong's aviation authorities will have to decide whether it should be seen as a British airline or a Chinese one. This will be critical when Dragonair applies for rights to fly scheduled services to China and overseas.

Such agreements are based on a balancing of reciprocal rights, and while CAAC would want to see Dragonair on the British side of the negotiating table, Britain would prefer to see the airline sitting alongside CAAC.

Mr Steve Miller, recruited three months ago to manage the new group, is facing more practical problems. Apart from ensuring he wins the air operator's certificate, he has staff to train, flight plans to prepare and booking procedures to arrange. He ducks the sensitive political issues which government officials see looming.

Cathay Pacific insists it is unruffled by the prospect of stiff competition, but is concerned to protect its plans for scheduled flights into China. It fought for more than three years to win the right to operate a scheduled service to Shanghai, and has only recently won clearance to increase flights to three a week.

It has still to win the right to fly to Peking, or any other part of China. It has been allowed charter flights during Chinese New Year and other major holidays, but refused the right to more regular charters, even though demand for flights into cities like Peking and Shanghai greatly outstrips supply. Cathay suspects that Dragonair's application for daily charters is a sleight of hand for scheduled rights, and it is not alone.

Cathay will apply alongside Dragonair for any new routes offered by Peking, scheduled or chartered, and the contest is likely to provide important signals on how China intends to interpret the Sino-British agreement.

In September this year Britain and China will negotiate a new air services agreement. By then Dragonair should be flying a second aircraft between Hong Kong and the mainland. If it then applies for scheduled rights, an nnprecedented contest is likely to ensue.

Government officials confess they are already losing sleep on the issue, and they are likely to lose much more before it is resolved.

Investment lessons from outsiders

Manufacturing

MICHAEL CASSELL

Industry 香港

Manufacturing, while facing new pressures, remains the mainstay of the economy, backed by important sectors like fishing and tourism. China has taken direct investments preparing for the 1997 takeover

IN SPITE of the rapid development of Hong Kong's service industries, manufacturing remains the mainstay of the economy. It accounts for more than 20 per cent of gross domestic product, absorbs about 40 per cent of the labour force and exports about 90 per cent of output, placing Hong Kong high up the international league of trading nations.

With a population of about 5.5m, Hong Kong has always been forced to seek overseas markets to sustain its manufacturing industries. It has to rely on exports to survive.

Hong Kong's industries are primarily engaged in production of consumer goods, ranging from textiles and clothing to electronics, plastics and light metals. At the heavier end, the territory produces a wide range of industrial machinery, offers shipbuilding and repair services and aircraft engineering facilities.

Having once relied heavily on access to the UK market to assist its transition from entrepôt status to a domestic manufacturer, Hong Kong now sells to the world. Such has been the increasing diversification and sophistication of its manufacturing skills, that since 1983 the value of electrical and electronic exports has exceeded those of the garment industry.

The significant move away from the production of lower-end, light manufactured goods to today's relatively high-quality products underlines the pressures which the manufacturing sector faces. These include rising labour costs, increased competition in overseas markets, frequent changes in demand and more stringent quota restrictions on textiles and garments.

Import restrictions on textiles introduced in the U.S. serve as a reminder to manufacturers that no market, however well-established, offers an indefinite guarantee of success. The threat of increasing protectionism, however, is not confined to developed markets. Hong Kong has to face up to the prospect of pressures from the other end of the scale involving developing Third World countries anxious to increase their own industrial base by means of exports.

Skills

The threat from these new competitors will be seen first in the lower-quality end of Hong Kong's existing markets, increasing the need to move up-market as far as existing products are concerned and to seek new and innovative products to attract the consumer.

In the shorter term, the recent decline in capital investment in Hong Kong's manufacturing sector, brought on by the worldwide recession but prolonged because of political uncertainties, has been brought to an end. The signing of the Sino-British agreement has already given a further boost to the upsurge in expenditure.

The level of overseas investment in the territory's manufacturing sector continues to rise. The number of industrial establishments with overseas interests may be small—90 per cent of Hong Kong's industry is indigenously owned—but the benefits they bring in areas like technology transfer, modern management skills and technical training can work to the entire manufacturing community's benefit.

A report on overseas investment in local manufacturing industry prepared by the Industry Department showed that known foreign investment by last autumn was HK$11.4bn, a 63 per cent increase over three years. The U.S. was the largest source of investment finance, accounting for just over HK$6bn (54 per cent), with Japan (21 per cent) in second place and the UK (7 per cent) third.

The leading areas for overseas investment remain electronics, electrical manufacturing and textiles and garments. In a clear message for local industry, the report noted that businesses with overseas investment connections which proved to be more capital intensive and more prepared to automate production methods. In addition, they tended to consider joint ventures more readily and were also more disposed towards diversifying product lines.

The position of the electronics sector underlines the relevance of the message. Because of a downturn in U.S. demand, Hong Kong manufacturers face shrinking demand and over-dependency on a limited product range.

Although the sector has been outstandingly successful in consumer markets, for example, it has not generally succeeded in establishing an industrial business for supplying the computer and telecommunications sector.

Local companies have been told that they must improve technical ability and devote more resources to manufacturing equipment.

A shake-out is forcing companies to move up-market into higher added-value products.

The Government has recognised the contribution it can make in promoting the process.

It has introduced projects involving industrial support services and technical back-up, including a series of techno-economic studies in electronics, metals processing, technology transfer and automation. It is also funding three research and development projects involving integrated circuit manufacturing and computer-aided design and manufacture.

The intention is to spread the more enlightened view of forward investment held by companies helped by overseas finance. According to the Industry Department report, most foreign investors with a foothold in Hong Kong industry feel that the climate for investment is favourable. This is principally because of the territory's good communications, consistent economic policy of free trade and free enterprise, its freeport status, low tax, excellent shipping and cargo handling facilities, lack of exchange controls, and efficient banking and insurance sector.

On the downside, investors criticised the traditionally high labour turnover, rising labour costs, lack of special fiscal incentives and the non-availability of long-term leases for business premises. Some investors are never satisfied, although the suggestion deserves to be taken seriously that inadequate supporting industries like precision machinery, die-casting and forging are limiting tha scope for expansion.

Their performance implies their views are worth listening to. Sales from the factories involving overseas investment have increased by nearly 60 per cent since 1980 and their share of domestic exports has reached about 18 per cent.

It is generally accepted that indigenous manufactures must adopt some of the policies of their foreign-financed competitors to maintain past successes. Mr John Yaxley, Hong Kong's Director of Trade, told a recent meeting of businessmen that while the territory had made big strides in upgrading industry, often through foreign investment: "The development of technology application is still, on the whole, relatively slow and limited.

"Provided that our manufacturers are willing to make the necessary investment, the fact that we have been relatively slow in adopting automation and modern, computer-related techniques works to our advantage.

"We now have at our choice, machinery and computer systems which are not only tested in application but which have become more sophisticated, with greatly enhanced capabilities, and which sell at much reduced prices"

The need to re-equip and take advantage of latest production techniques will become more pressing as Hong Kong's "domestic" market expands to embrace China, with its 1bn consumers. After China's implementation of the new "Open Door" policy and greater internal liberalisation, there has been a major increase in the purchasing power of the Chinese people, resulting in higher demand for consumer goods.

Chinese factories are also buying a rising volume of semi-manufactured products and industrial machinery to expand operations.

The prospect will also bring increased competition for Hong Kong producers as China takes up the manufacturing challenge.

Gamble has paid off handsomely

Toys

MICHAEL CASSELL

THE PEOPLE of Hong Kong love a gamble, which is just as well, bearing in mind the territory's role as one of the world's biggest toy manufacturing centres.

In the words of Mr. Bill Blauuw, of Meco Holdings, one of Hong Kong's best-known toy producers: "Toy production appeals to the entrepreneurial Chinese who have an inbuilt gambling instinct.

"If you want to make toys you have to gamble. A mould for a new toy can cost HK$50 or HK$5m but it can be out of fashion in six months. Other lines can go on forever."

Hong Kong's toy industry gamble, now almost 30 years old, has paid off handsomely. In terms of value, the territory is now tha world's leading exporter of toys. In 1984, total exports — including re-exports — from Hong Kong of dolls, toys and games amounted to HK$11.5bn, of which just under 60 per cent went to the U.S.

The American market for toys, games, hobby craft and models was worth about US$6bn last year and Hong Kong has managed to take a growing share of rising sales.

Although the Hong Kong toy industry is large it remains highly fragmented, with estimates of the number of individual manufacturers at around 2,400. They are thought to employ about 60,000.

Traditionally the local toy manufacturers concentrated on low-cost and labour-intensive products like inexpensive plastic toys and dolls. More recently the industry has expanded and developed to the stage where it can offer a wide range of toys and games, many of which are of high quality.

Apart from its long-developed skills in plastic moulding, one of the industry's strengths has been its ability to react quickly to consumer demands.

Mr Dennis Ting, chairman of Kader Industrial, which does not produce its own product lines but manufactures on behalf of others, says: "Hong Kong has stayed on top because of its long experience in plastic moulding and its ability to meet its customers' demands at short notice.

"Wa can produce in bulk and on tima and have the technical resources to help with the development of new lines."

Kader obtained a stock exchange listing in May, largely on the back of its success in producing Cabbage Patch dolls for Coleco Industries of the U.S. It intends to develop a production complex in Kowloon Bay to replace its factory at North Point on Hong Kong Island.

The company employs about 3,200 in Hong Kong but, like some competitors, is increasingly making use of manufacturing facilities in China, where it now employs another 2,600.

Automation

The move is an important initiative in the struggle to contain costs. When Kader's plant opened in Shenzhen in 1982, the more labour-intensive manufacturing processes wera transferred there and goods were normally completed in the Hong Kong factories. More recently, the production process has in some cases been handled in China and some shipments are made direct to overseas customers.

According to Mr Ting: "An increasing proportion of manufacturing is being sub-contracted to outside manufacturers in China, with corresponding cost savings. We even have hundreds of thousands of dresses made in China for our Cabbage Patch dolls. We lend them the sewing machines."

Kader reckons that by last year nearly half of production work on its products was being carried out in China.

Although toy production remains relatively labour-intensive, the major manufacturers have embarked on substantial investment programmes designed to increase automation and raise volume output. At the same time, product development is being stepped up to ensure the next generation of toys is ready to take over from today's popular products.

Whatever arrangements are made to produce toys at competitive prices, most manufacturers are aware of the need to maintain standards and quality. In the past Hong Kong's reputation for low quality toys was worldwide and it has taken years to overcome the image.

Mr Blauuw comments: "When the toy manufacturing business got under way, it was rough and ready and producers were having to experiment with materials and product lines.

"A great deal of what they produced was inferior but they quickly introduced improvements. Even so, the stigma still sometimes sticks, so manufacturers are even more determined to provide quality and value for money."

One of the industry's biggest headaches is ensuring that its product lines meet the widely differing standards applied in each of its customer nations.

Hong Kong is now the leading exporter of toys, with exports amounting to HK$11.5bn. More than 2,400 manufacturers are active in the growing market.

According to Blauuw: "Importing countries demand a wide range of specifications designed to meet local requirements and failure to take them into account can spell disaster."

Hong Kong's ability to maintain its leading position in the toy exporting league will depend on the industry's cost competitiveness, and its ability to produce quickly and in volume. Failure to maintain the performance will quickly be turned to the advantage of competitors.

But the production of toys will always remain a high-risk business. While characters from Star Wars and Cabbage Patch kids may have proved consistently good sellers, there are warehouses in Hong Kong allegedly stuffed to the skylights with unwanted ET dolls.

Charting a course to avoid depleted waters

Fishing

LARRY KLINGER

HONG KONG'S fishing industry is faced with a problem: the territory's catch is levelling off and the available waters are reckoned to be exploited to the full and now in real danger of being dangerously over-fished. And officials say there is little that can be done, at least for the moment, to change the situation.

The diplomatic distance between the points of the triangle within which the industry finds itself—Hong Kong, China and Taiwan—means that any idea of managing jointly these waters to mutual benefit is impossible. The almost complete lack of formal contacts between the three means that not even scientific evidence can be freely exchanged and pooled to establish what resources actually exist, even if this information were available. In China's case, it probably is not.

Dwindling

Yet, fishing remains of considerable importance to Hong Kong. While dwindling in terms of the number of people who earn their living from the sea, the industry still produces 90 per cent of the marine fish eaten by Hong Kong's population, whose consumption rate is in the world's top five.

The industry also remains significant economically, employing about 28,000 people, who last year landed a total catch of nearly 200,000 tonnes, worth an estimated HK$1.6bn.

It is also of social importance, a traditional industry of small ports scattered across the territory's islands and manned by the Tanka and Hoklo communities which for millentia have fished the northern shelf of the South China Sea. Most vessels are still owner-operated.

As in most of the world's fishing fleets, however, the modernisation that has been taking place over recent years has brought benefits and problems. Mechanisation and improved fishing methods (about 4,400 of the fleet's 4,700 boats are motor-powered) has meant bigger and better catches (192,000 tonnes in 1984 compared with 128,000 tonnes in 1973) higher income (landings only fetched HK$467m in 1973), better working conditions and extended ranges for boats in reduced travelling time.

However, it has also meant fewer vessels (there were nearly 5,500 10 years ago) and less employment (about a tenth of 1 per cent of the economically active population now against 1.7 per cent 10 years ago). Larger quantities of fish are also being taken in waters already being depleted, and this in turn, has led to the search for more fish towards Vietnamese and Philippine waters, leading to clashes in which there have been arrests.

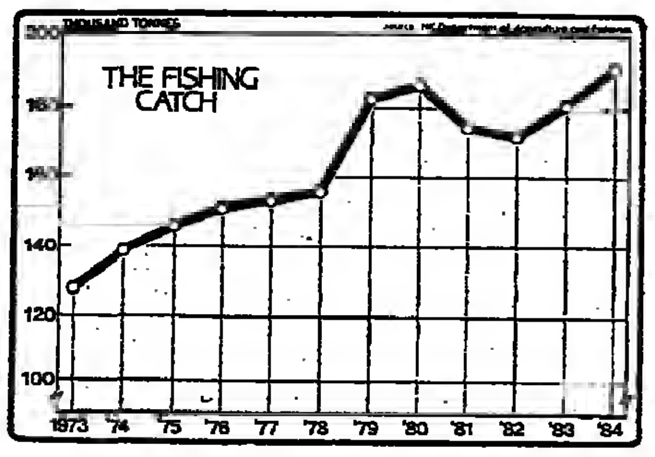
There are other difficulties. Operating costs, especially for fuel, are outstripping the increase in catches. More of the catch is being landed in China in exchange for diesel, where it costs about 25 per cent less than at home, and boat owners, in the search for cheaper labour, are hiring more mainlanders as crew. Most boats have dual licences, granted by Hong Kong and nearby Chinese provinces.

Nevertheless, the over-riding problem remains the long-term danger of over-fishing by the Hongkongers themselves and their colleagues in China and Taiwan.

"The Hong Kong Government monitors its own fishing, and the indications are that it is no longer a question of declining abundance. Existing fishing grounds are in real danger of being over-exploited," said an official at the Department of Agriculture and Fisheries.

There has been a distinct falling-off of catches in most traditional grounds, and stocks in areas which recently showed some improvement are again levelling-off. Hong Kong retains its long-standing official policy of trying to ensure an ample supply of fish through a viable home-grown industry, but the Government admits it can do little more than it has already.

This includes a programme of inland freshwater pond farming and coastal marine farming, which last year provided the territory with 6,500 tonnes of freshwater fish valued at HK$103m and marine production of 1,300 tonnes valued at about HK$100m. However, possible expansion in farming is limited by geographical constraints, especially for the potentially more important marine farming because much of the territory's suitable coastline is already occupied by harbours and public recreational areas.



Extensive search

The Department of Agriculture and Fisheries has also made an extensive search for "new fisheries" in Hong Kong waters. Because the industry almost exclusively fishes for species which dwell on or near the seabed, marine scientists have mounted a research programme to find fish at shallower depths but they located nothing that could lend itself to commercial exploitation.

Research is now being launched to see if Hong Kong might unilaterally improve stocks by finding areas where its fleet can limit fishing or use nets with larger mesh sizes to protect nurseries. Here too, however, the hopes are not high because without a shared policy in the Hong Kong/China/Taiwan triangle, significant conservation limits on the home fleet would only benefit other fishing nations and would not limit the overall catch.

The Government hopes that it can at least promote a general awareness of the danger, and scientists are encouraged by the apparent stirrings of concern in China, which recently banned fishing along its coast to a depth of 40 metres to protect nursery grounds.

This, of course, also had the effect of restricting the Hong Kong fleet as well, and, in the tense atmosphere of the run-up to reversion to Chinese sovereignty, new worries have surfaced among Hongkongers about whether China might impose further restrictions, if it feels that Hong Kong's modernised fleet is a threat to its own less-developed one.

Hong Kong's fishermen are in a tight position. The Government is certainly in no position to manage the region's wider fisheries, having only real contol over about five miles of water in any direction. The territory is effectively surrounded by China.

At the moment, the Hong Kong fleet has access to waters along the Chinese shelf, from the half of Tonking Bay not controlled by Vietnam, around Hainan island, up into the East China Sea past Taiwan.

"It is all very delicate," said a government economist. "On the one hand, we want to be able to protect the fisheries for the longer-term food supply. On the other hand, like any government, we are responsible for protecting the viability of our own industries."

Success brings its problems

Tourism

MICHAEL CASSELL

ON A BUSY DAY, Hong Kong's crowded, colourful streets may have to find room for up to 300,000 tourists — apart from a few million of its own inhabitants.

Last year the tiny territory clinging to China's underbelly played host to a record 3.15m overseas visitors. Lured by the prospect of good food, unbeatable shopping, a glimpse of the Orient and the increasing chance of a trip into the People's Republic, the number of tourists have continued to swell.

In 1984 revenue from tourism reached just over HK$14bn, a 23 per cent increase over the previous 12 months. There are no signs that the bubble will burst.

The tourist industry has become big business, directly employing more than 120,000 people and with as many as 500,000 associated with it. For years its potential contribution to the economy was underrated by the Government, but no longer is that the case.

Rarely has Hong Kong been at the centre of so much world attention. While the political uncertainty surrounding its future may have created all sorts of tensions and problems for its people, recent events have helped place it even more prominently on the international tourist map.

Mr John Pain, executive director of the Hong Kong Tourist Association, says that the strength of the U.S. dollar, the corresponding weakness of the Hong Kong dollar and, until recently, the widely held belief that the territory might not always be so easy to visit, have added to its pulling powers.

Hong Kong is top of the tourist league with visitors from ASEAN nations, from Japan and from the U.S. Its popularity in these and other nations is being aggressively promoted by the association, which in 1985 has a HK$104m budget — this year, for the first time, derived exclusively from hotel room taxes. Mr Pain says the tourist success is not taken for granted and the association is pursuing policies to tap new sources of visitors.

The association works hard to promote the variety of experience and good value offered by Hong Kong and has introduced special tours like those to the New Territories to widen the choice for visitors. It is also offering the benefit of its experience to help new tour operators set up in business and sell Hong Kong.

Pressure

If the industry has problems, they appear to be associated with its success. The huge increase in arrivals has put increasing pressure on the territory's 18,000 hotel rooms and worked through in higher room rates. Complaints of increasing charges have been rising, although the association emphasises that by international standards Hong Kong still offers comparatively cheap accommodation.

About 18 months ago, the hotel industry saw the crunch coming and embarked on a new wave of development. From a point where virtually no new hotel rooms were being planned, more than 6,000 were on the drawing board six months ago, a figure which has now risen to about 10,000. Not all may be built, but the possibility has provoked some warnings of another phase of overbuilding. Within four years, the total inventory of hotel rooms should stand at almost 26,000.

At least 14 hotels are in various stages of development, including a 20-storey building in Connaught Road West on Hong Kong Island, scheduled for completion this year; the Kowloon Hotel, a 743-room property behind the Peninsula; and two hotels offering 1,710 rooms in the new Hong Kong International exhibition centre being developed on the Wanchai waterfront.

It looks as though the rooms cannot materialise a moment too soon. In a tourist centre where 70 per cent occupancy rates have historically represented something of a crisis, recent rates have averaged nearly 90 per cent and travel agents have been experiencing growing difficulties in securing accommodation.

If overall numbers of tourists remain highly encouraging, Hong Kong is now working hard on improving the profile of its visitors. It is concentrating efforts on attracting higher-spenders and people prepared to stay longer, as well as out of season. The incentive travel business—235 groups stayed last year—and Hong Kong's conference and exhibition facilities represent increasingly important sources of earnings.

Last year there were more than 450 conferences and exhibitions attended by 70,000 delegates, most from the U.S. The business will be boosted further by the development of the international exhibition centre in Harbour Road, Wanchai, timed for completion in 1988. The HK$1.5bn project is being financed by New World Development.

One of Hong Kong's principal attractions is its giant neighbour to the north and the desire of a growing number of tourists to take a trip inside a nation whose doors were closed for so long.

At least 12 per cent of Hong Kong's visitors are estimated to cross the border and this is quickly growing. The trend has worked to Hong Kong's advantage but there is concern over the extent to which the China connection could backfire.

About 90 per cent of Hong Kong's visitors arrive by air at Kai Tak airport, offering one of the world's most spectacular approaches. But Kai Tak could face saturation by the early 1990s. Ambitious and costly plans for a new airport on Lantau island have been scrapped, so the existing facilities could soon become an embarrassing bottleneck.

Dilemma

The Chinese may solve the dilemma by developing their own international air terminal close to the border, possibly in Shenzhen, encouraging a growing proportion of travellers to make China their first port of call. Hong Kong would then become the destination for a one- or two-day trip and the tables will have been reversed.

There is also concern about the flow of Chinese visitors into Hong Kong. Each year about 250,000 Chinese visit the territory but they are demanding more basic facilities than other international travellers and there is concern that in attempting to meet their needs those of higher-spending tourists could be overlooked.

There are also claims that the Chinese make little direct financial contribution to Hong Kong's tourist enconomy, whilst making disproportionate demands on its facilities. (The average spending by all Hong Kong visitors was HK$4,300 a head last year.)

Such concerns, however, are not allowed to overshadow Hong Kong's success in drawing visitors from around the world and inviting them to participate "in one of life's great adventures."

The territory can be infuriatingly sticky and occasionally smelly, hopelessly overcrowded, offensively noisy and immensely rich in experience. This year, another 3m or 4m people will give it a go and few will be disappointed.

China's investment links

CHINA'S investments in Hong Kong, spanning banking and trading as well as manufacturing, are estimated at about HK$5bn. Of this, perhaps HK$2bn has been funnelled into manufacturing industry.

The Hong Kong Government has no accurate figures, and it is making an attempt to measure mainland investment.

China's "Sister Banks," which channel funds into Hong Kong-based ventures, rarely make public their investments. They are under no pressure to make their holdings in local companies public until they reach a controlling level. Even then, nominee names can disguise the source of investment.

This alone makes the government statisticians' task difficult but far more perplexing is that much investment is agreed informally, based on links between small family-controlled companies in Hong Kong and enterprises in China.

One official at Hong Kong's Industry Department said: "There are more than 40,000 companies in Hong Kong. Most are tiny, and any one could have funding from Chinese sources."

Officials know that, for instance, a large number of electronics' companies in Hong Kong's Taipo industrial estate have mainland backing.

As in the textile sector, many of these companies have strong links with partners in China, either supplying high technology components to enhance domestic Chinese production or buying from Chinese counterparts before manufacturing for export.

Unfortunately for China's image, most times investment has been revealed have been unhappy ones. When Conic Investments, one of Hong Kong's leading electronics companies, collapsed last year amid scandal over the disappearance of funds, it was the Bank of China group that was forced to bail the company out.

'For a long time, the economic prosperity of Hong Kong has been inseparable from the powerful support from China'

Wei Yuming, Deputy Minister of Foreign Economic Relations and Trade

The bank probably lost hundreds of millions of Hong Kong dollars. The company is likely to be in a frail state for a long time, although an increasing proportion of its output is now going to the mainland.

China Cement has proven another headache for the Bank of China. The plant went into operation in 1983 after costing HK$1.1bn to build, and has made losses ever since. In January this year Kaiser Cement, of the U.S., and Green Island Cement, the Hong Kong group controlled by Mr Li Kashing, decided to cut their losses, make substantial write offs, and sell their interests to a Peking-controlled group. The Bank of China group has taken over responsibility for debts exceeding HK$1bn.

In a different category are investments in the Admiralty II property development, the Hong Kong-China ferry terminal, and the Mass Transit Railway Corporation. Returns are likely to be modest, but the overriding aim has been to bolster "stability and prosperity" in Hong Kong.

Their political responsibility for fostering confidence in the Territory has been difficult to reconcile with commercial banking logic.

Mr Wang Guangying, whose Everbright Industrial emerged onto the Hong Kong stage two years ago with talk of massive investments in the Territory, has all but gone to ground. Since the collapse last year of a HK$1bn deal to buy a luxury property development from International City Holdings, some of the shine on his group's reputation has worn off.

One of the most promising mainland ventures is Hongkong and Macao International Investment, capitalised at HK$500m, with backing from the Bank of China and almost every illustrious Chinese business figure in the Territory.

All its funds have been put at the disposal of the new airline company Dragonair. The airline still has to win permission for charter routes from Hong Kong to Peking and Shanghai.

While the scale of China's investment in Hong Kong is unclear, the discernible trend is so powerful that there can be no doubt that China will play an increasingly important part in funding Hong Kong's industry.

Peking has made many concessions that might be onerous because it sees Hong Kong as a valuable asset. By investing there now, China is aiming to ensure as valuable an asset in 1997 as it is today.

David Dodwell

Bureaucrats' triple squeeze

Civil servants and soldiers are uncertain of their future when China takes control of the colony.

A similar uncertainty surrounds government's efforts to control serious pollution problems without harming profitability

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Society

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Civil Service

DAVID DODWELL

HONG KONG'S civil service faces a "triple squeeze" up to 1997. Expatriates will leave, overseas contract staff prove harder and more expensive to recruit, and local staff will wonder whether they will be suspect once China regains sovereignty if they have been successful under colonial rule.

Many in Hong Kong's free-enterprise economy may say this is no bad thing. Most see bureaucracy as a curse and civil servants as the source. Even those who acknowledge the importance of an efficient and neutral civil service have given little thought to the implications if the service begins to disintegrate.

Hong Kong's civil service has unusual power. In a territory colonially administered since 1842, it has not only advised on, drafted and applied government policy but formulated it as well. Even as steps are being taken to establish democratically-rooted political institutions, civil servants play a leading role in the most powerful decision-making bodies—the executive and legislative councils.

This has given rise to two big worries as Britain prepares to hand over power to Peking in 1977:

- The absence of democratic checks on the civil service will give the Chinese-installed Special Administrative Region (SAR) government immense powers in the territory after 1997.

There have been promises that local people will govern Hong Kong, and that the capitalist way of life will not be disturbed. But many fear that bureaucrats answering to Peking will be ill-attuned to capitalist needs. They might even try to eliminate contradictions in the "one country, two systems" philosophy outlined by Deng Xiaoping, China's leader, as a basis for reuniting with the mainland not just Hong Kong, but also Macao and Taiwan.

- Secondly the civil service has unusual power, so its disintegration would have a powerful impact. Britain is committed under the Sino-British agreement to ensure a smooth transition of power in 1997, and upheaval inside the civil service could jeopardise this.

Political reforms putting more power in the hands of locally - elected representatives are only now being tentatively introduced, and are unlikely to reduce significantly the power of the civil service. There have been strong signals from Peking that Hong Kong democratic ambitions can only stretch so far.

Expatriates in Hong Kong's civil service have most to lose as sovereignty reverts to China. The Sino-British agreement says the local government "will be composed of local inhabitants." Senior officials will be appointed by the chief executive, who will be appointed by Peking.

Those currently employed in the civil service, both Chinese and foreign, "may remain in employment," while expatriates "may be employed to serve as advisers or to hold certain public posts."

Career prospects seem unappealing, particularly to expatriates who will not have reached retirement by 1997. All top jobs are likely to be closed and anyone with ambition has begun to look elsewhere.

The expatriates are an anomalous group who are inevitable *victims* of decolonisation. The writing has been on the wall for many years and the colonial government has been committed to localisation for more than a decade.

Recruitment of expatriates on permanent and pensionable terms has ended this year even among the elite ranks of administrative officers and the police. By 1997 there will be a maximum of 70 pensionable expatriate officers who have reached retirement.

The small number of expatriates left belies their importance. Of 171,000 in the civil service, including teachers, road sweepers and barristers, 2 per cent are expatriates. Even at executive officer level, just below the elite administrative grades, only 15 of 259 senior officers are expatriates.

It is in the police, where one third of officers above inspector level are recruited from overseas, and in the administrative grades that local people have yet to make their mark. Nine of the 13 secretaries heading government departments are expatriates.

There is heavy dependence on expatriates in other professional *areas*, particularly the legal profession. In the past such staff could expect fairly routine renewal of contracts. This is no longer so and morale has fallen. Many are seeking work elsewhere, and the price of recruiting replacements is likely to rise as the prospect of a career dwindles.

Locally-born civil servants face 1997 with mixed feelings. Localisation offers unique opportunities for rapid promotion but many are wary of what it will be like to work for masters answering to Peking.

The loose reins offered by Britain in these last decades of colonial rule have given the local administration liberty to use discretion in drafting and implementing policy. If Peking tightens control after 1997, the loss of liberty will be keenly felt.

Most local civil servants seem willing to give Peking the benefit of the doubt. They admit, however, that everything rests on Peking acting in good faith on both the letter and the spirit of the Sino-British agreement.

China's bureaucracy has a reputation for ponderousness, inflexibility and obduracy which many blame for the painfully slow climb back to economic strength and political stability. Hong Kong's administration, on the other hand, has a comparatively light touch, and the territory's vitality is in no *small* part due to this.

If the "triple squeeze" weakens the service during the next 12 years then this light touch could be lost. The special administrative region of Hong Kong would pay a high price—and so would China.

The Royal Hong Kong Regiment in training

Gurkhas fear for the future

Defence

MARY ANN SIEGHART

ABOUT THE only thing that is certain about Hong Kong's future defence is that after 1997 it will not be conducted by the British.

Since the defence cuts of the early 1970s when heavy fighting forces and weapons were pulled out of Hong Kong, Britain has kept about 12,000 soldiers there, mainly from the Brigade of Gurkhas whose home base is Hong Kong.

The Army has long given up the idea of being able to defend the territory against a determined invader. It is there now to prevent illegal immigrants crossing the border with mainland China and to back up the domestic police during civil unrest.

The two vital questions are: who will replace the Army, and what will happen to the Gurkhas? The first may be decided by the Joint Liaison Group or, unilaterally by China. The second is a problem for the British Government.

The Army is giving nothing away. "The decision is the Prime Minister's," says Brig Christopher Pike of the Brigade of Gurkhas.

Under the Sino-British agreement, the Chinese would take responsibility for Hong Kong's external defence, and internal public order would remain the province of the special administrative region. Gen Derek Boorman, commander of British forces in Hong Kong until he left the territory in May, suggested that, rather than just expanding the local police for this purpose, the Hong Kong Government was considering setting up a locally-recruited and separate back-up force.

He said it would be "inappropriate" for Chinese troops to maintain law and order.

But in May 1984, Deng Xiaoping, the Chinese leader, said he intended to put between 3,000 and 5,0000 troops in the territory after 1997.

The Gurkhas are worried what will happen to them. They are recruited annually from Nepal, and competition is extremely fierce. They send money back to families who otherwise have to rely on subsistence farming.

The relationship with the British goes back 160 years, when the East India Company was so impressed by the ferocity and skills of the King of Nepal's Gurkhas that it offered to take them on once peace was made.

During that time, the bravery of Gurkha regiments has earned them 26 Victoria Crosses.

The problem is whether the army can afford to assimilate about 8,500 Gurkhas into its activities outside Hong Kong.

Competition worries limit clean-up

Pollution

ALEXANDER NICOLL

ANYONE LANDING at Kai Tak airport will have an inkling of Hong Kong's environmental problems. *Approaching* aircraft skim the Kowloon rooftops, bringing constant noise to local residents; high rise blocks attest to high population density as far as the eye can see; and an appalling stench rises from stagnant harbour water trapped by the airport runway.

Not immediately obvious are the colony's more serious and pervasive pollutants: nearly 1m tonnes of sewage pumped into its waters every day and (more lethal) 2,000 tonnes of pig and poultry waste dumped daily into its rivers. In the air, there is the residue from the Government's refuse incinerators and the sulphur dioxide created by wide use in industry of cheap, high-sulphur fuel.

As if these and other persistent problems were not enough, an increasingly vocal environmentalist lobby *is* *anxious* about a 1,800mW nuclear power station being built at Daya Bay, China, 40 miles from Hong Kong, in conjunction with Hong Kong's China Light and Power. The plant will supply electricity to the colony.

Nuclear concerns aside, Hong Kong's problems are urgent, but government action to deal with them has been hamstrung by reluctance to damage economic competitiveness.

Mr Henry Ching, until recently Secretary of Health and *Welfare*, summed up this concern in a speech which emphasised the need for more co-ordinated action against pollution—but within reason.

"We must take care not to lose the baby with the bath-water. . . . The problem faced by our industrial and manufacturing sectors are clear enough to us all, and it obviously would not be sensible to impose controls which seriously threatened their competitiveness," he said.

Mr S. L. Wan, chairman of the Conservancy Association, a non-governmental watchdog, takes a less generous view. "The most serious problem is leadership at the highest levels of Government," he *says*.

"The Government view is that it is desirable but not essential or fundamental. I've fought a number of losing battles."

Complaint

Hong Kong does have a dynamic Environmental Protection Agency. Its role, so far, has been to monitor pollution levels to draft legislation and to plan —in particular, to take an active role in the planning of the new developments and projects which will continue to spring up everywhere to accommodate an ever-expanding population.

The EPA has no enforcement role. Anybody wishing to express concern about a particular environmental problem must consult a list of telephone numbers several pages long to find out which office of which Government department should receive the complaint.

Six different departments, for example, are responsible for handling complaints about different types of air pollution. The bureaucratic frustrations of making a complaint can be imagined.

Next year the EPA is likely to become a full-fledged department, though *its make-up* and enforcement powers remain to be defined. It will, however, provide a central complaint function, simplifying life not only for disgruntled citizens but also for industrial companies and others seeking advice on environmental issues.

Laws to deal with most types of pollution (though not noise) are *in* place, but *so far*, they are basically enabling legislation with precise regulations still to be filled in. Most importantly, they will have little impact on existing industrial factories and on other current sources of pollution — notably those controlled by the Government.

An existing factory will, in fact, *be able* to increase its output of pollutants by as *much* as 30 per cent without breaking the law. To tighten up on plants already built would, it is argued, put them out of business.

Instead, the thrust of government policy is to ensure that new factories and other developments are built according to strict standards. This means that the cost of environmental control is considerably reduced, but it also means that the controls will take a long time—perhaps decades—to bite.

To combat noise, it looks as though the Government will continue to rely basically on good planning of new housing developments and appeals for good neighbourliness.

"It is possible to argue that noise is, to a large extent, not much more than an irritant and a nuisance, and that its polluting effect largely ceases when the noise ceases to be made," Mr Ching said.

There are plans, however, to *control construction, industrial* and aircraft noise.

Between 5m and 6m people crammed into a tight area not only make a lot of noise for each other but also produce a lot of sewage, most of which is pumped virtually untreated into the harbour.

This is not as bad as it might seem. A *strong* tide takes most of it away every day, leaving problems only in individual black spots where water is trapped. Much depends on the extent to which the "receiving water" is polluted already.

It is unlikely that there will be any significant change in the methods for dealing with sewage. In planning a future large development at Junk Bay, for example, the EPA at first considered placing a "secondary" full-scale treatment plant near the new town. But it was decided that the effluent from the plant would create too many problems when trapped within the bay, and that it would be better to pump the sewage *further* away to a cheaper, "primary" plant from which it would be washed out to sea by a strong current.

More pernicious is the waste from Hong Kong's 500,000 pigs, not to mention its chickens, ducks and goats.

The Government encouraged pig-farming during the Cultural Revolution when supplies from China were cut off. But there *is* no available land upon which to dispose of the inevitable consequence, so the farms dump it into the streams. From there, it causes untold hazards in the residential districts through which rivers flow, and finally in the sea.

The Government plans to compensate the farmers and will probably ban pigs and chickens, at least in urban areas.

Agricultural waste is blamed by some for the destruction in 1979 of Hong Kong's centuries-old oyster industry. The EPA, however, has not pinned down the cause. Pollution of Hong Kong's water is aggravated, especially in the west, by the nearby mouth of China's Pearl River.

Industrial waste is, by comparison, a minor pollutant of Hong Kong's water except in trouble spots. But sulphur dioxide produced by industry is a major air concern.

Incinerators

Every method of dealing with it costs a significant amount of money. These include building taller chimney stacks from which the gas can be dispersed more effectively into the atmosphere (which is unreliable and will produce acid rain); use of more expensive, less sulphurous fuel (difficult when Hong Kong *is entirely dependent* on imported. fuels); and installation of equipment to desulphurise flue gas.

The last method may prove the most cost-effective for the 200 or so factories which produce more than half the colony's sulphur dioxide—though clearly a strong government lead is required before anything will be done.

The government, in fact, is probably the worst polluter of the air, through its three refuse incinerators, which are not fitted with smoke-reducing electrostatic precipitators.

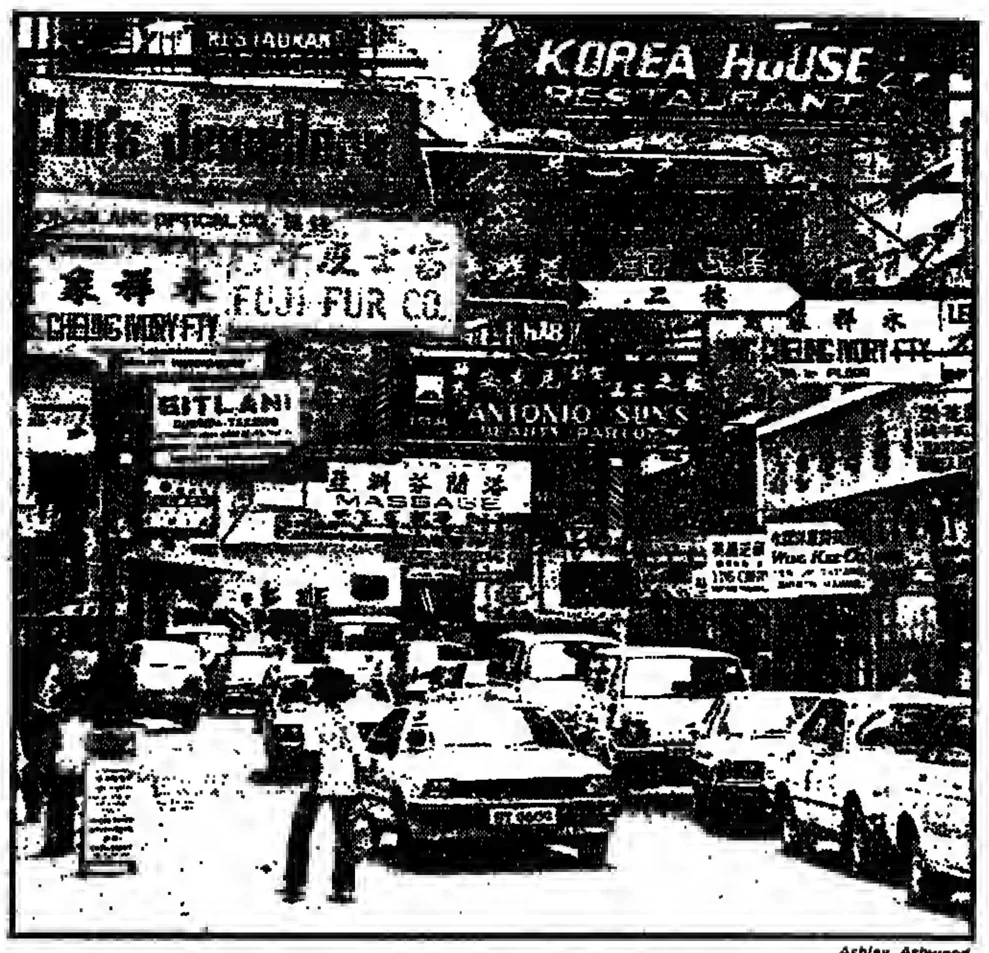
The EPA is considering plans to reorganise refuse disposal in Kowloon, which would not only remove the incinerators but also introduce private sector participation as has been occurring in the UK. But at Kennedy Town on Hong Kong island, described by one EPA official as "a disaster," the incinerator problem is likely to remain for many years.

Among many other hazards are dust produced by construction, and exhaust emissions. About half the colony's vehicle-miles are run on cheap diesel, which produces fumes containing carginogenec.

Business Guide

COMPILED BY MAUREEN AUNG THWIN

How to move around the colony, where to stay or play, and a few tips on visiting mainland China



Ashley Ashwood

Neon City, Kowloon, where the power of advertising has become a tourist attraction

HONG KONG is easy to handle. Taxis are plentiful and cheap (except when you take Kowloon-based cabs to Hong Kong or vice versa), local telephone calls are free, the Rapid Transit (MTR) is exactly what it says it is (and probably the world's cleanest), and most people in the service industries speak English.

It is easy to get cheated by shapkeepers and money changers, so if you suspect somathing, make an immediate report to the Hong Kong Tourist Association, which is well-organised and belpful. Its tourist bandbook, available in most hotel rooms, gives nseful tips on wbera and bow to shop.

HOTELS

Most middle- to top-class hotels are excellent but can be booked solid, for Hong Kong is a powerful magnat for tourists and businessmen. Make sure you have a room reserved befora coming.

It makes little difference whether you slay on Hong Kong Island or in nearby Kowloon because of the variety and easy availability of transport. But for those who like to be wbere the action is, the centre of the territory is slowly shifting from Hong Kong Island to the dynamic Tsim Sha Tsui area of Kowloon, which boasts everything Hong Kong Island has except for Victoria Peak.

EATING

Unlike Westarn cities, the best places to eat tend to be the hotels, at least for European food. These also serve as mainstays for nightly dancing and entertainment.

Luncb is a gonrmet's delight, with most top-class hotels offering sumptuous buffels and "businessman's specials" at exceptionally low prices. One of tbe best deals in town is the squire lunch at the elegaot Gaddi's in the Peninsula Hotel—three courses, with a glass of wine for HK$100. There is also a curry lunch special in tbeir L'Aperitif lonnge.

Other notable gonrmet luncheons in Kowloon include the Royal Garden's Lalique (HK$82), and the Shangri-La's Margaux (HK$88). Tha Holiday Inn Harbour View features gourmet health meous in several restaurants, including an excellent cbicken lasagna made with home-made pasta in the Belvedere.

Hong Kong Island bas a captive lunchtime clientele so restaurants are often crowded. Everynne lunches at 1 pm in Hong Kong. The Hilton Grill offers .. three-course lunch for HK$160 and promises to serve the whole meal, if necessary, within an hour. The Mandarin Hotel's Clipper Lounge has the best sleak tartare sandwicb in town.

Food in general is superb in Hong Kong, wbose residents have become spoiled by the abundance of fresb local and imported food year-round. Dinner ot the Regent's Plume or tbe Mandarin's Pierrot is comparable in quality and price to better restaurants in New York or London. For the price of dinner, bowever, you conld rent a yacht for a day or fly to Manila for three days.

A couple of eating places not in holels are worth a mention: tbe Cozy Vini and Salumi, an Italian restaurant al 54 Morrison Road in Happy Vallay, and the Lam Kwai Fong area (above Queen's Road np D'Aguilar Street) is a wbole world of trendy restaurants and shops.

It is difficult to gat a bad Chinese meal in Hong Kong, and easy to bave spectacular food if you know bow to order. Some excellent places like the Lok Yu Tea House or the Fuk Lam Mnn restaurant cannot be appreciated without a Chinese-speaking companion.

But if striking out oo your own, there are many good Chinasa restaurants to be recommended: the Jade and Peking Garden cbain is never disappointing.

You can try exotic fare like yak maat at the elegant North Park restaurant in Wancbai (but beware of wbat can be exorbitant "seasonally priced" items) or Sicbuan cuisine in high-tech surroundings at the Pep n' Chilli. Cbiu Chow food at the Carriana restaurant is superb, as is the Cantonese food at the Tsui Hang Village in the New World Tower in Hong Kong.

ENTERTAINING

Even if you are a visitor you can be innovative about business entertaining. Most botels will arrange almost any special function, such as renting out the swimming pool area for an evening buffet, or catering food for a day or evening cruise in the harbour.

Charter Boats Hoog Kong, at 11 Sbum Wan Road, Aberdeen (Tel: 5-557-349) offers long- and short-term rentals of yachts, sailboats, junks and cruisers, complete with skipper/coxswain. Prices are sometimes negotiable. Dropping anchor in Chinese waters near To-Ning Island or Daya Bay can be arranged, but going ashore is still prohibited.

Hong Kong is club country, so if you belong to a club at home, bring your membership card in the likelihood that an organisation will have a reciprocal arrangement. Many hotels can obtain weekday passes to certain Hong Kong private clubs like Fanling Golf Club in the New Territories.

American Express card holders have automatic access to the London No. 1 Club's half dozen affiliates in Hong Kong, which includes the Clearwater Bay Golf and Country Club.

Bi-weekly horse races are rotated between the Happy Valley track on the island and the newer one in Shatin in the New Territories. Both courses are easy to reach by taxi or train. For the more adventuresome, the casinos in Macau are only 50 minutes away by jetfoil.

NIGHTLIFE

Hong Kong's nightlife is more diverse than any other Asian city except perhaps Tokyo. There is good jazz almost daily at Rick's Cafe in Tsim Sha Tsui and on Sundays in the Dickens Bar al the Excelsior Hotel on Hong Kong Island.

Most hotels feature instrumental music groups, and there is a plethora of classy discos around town for the more anergetic.

Cbeck the daily newspapars for special evants. Occasionally you can take in the big time—like the New York Philharmonic or David Bowie—at Hoog Kong prices.

Mother China is closer than ever

CHINA IS politically and psychologically closer to Hong Kong than ever—and much easier to get to. A short trip into the interior is not ooly inexpensive, but quite simple to arrange.

Some tours can be booked a day before departure through travel desks in botels, but more complicated trips should be handled by established Hong Kong travel companies that ara equipped to deal with snags—which will almost certainly occur.

Visas used to ba the main problem, especially for individual travellers. Now most travel agencies can produce one in as little as three bours—for a fee. It is possible in theory to get a visa at Peking Airport, thougb I have yet to find anyona wbo recommends that.

Whether to take a train, plane or ferry depends on how much time you have. Ooly a handful of non-Chinese airlines fly into the mainland, so flexibility demands, takiog the state-run carrier, CAAC, with its well-earned reputation for poor and erratic service.

CAAC officials say they are trying to upgrade services, but it may be some time before passengers notice aoy improvement. For shorter journeys it is worth thinking about trains, which are slower but invariably depart and arrive on time.

Hovercraft to China either from the Tai Kok Tsui pier in Kowloon or via Macan are fast and clean. Thay provide links with a fascinating array of cities along the Pearl River Delta up to Guangzhou (Canton).

Even with confirmad reservations in Cbina, things can and do go wroog. The best guarantee for resolving unforeseen hassles is to use a reputable travel agent that has good coo-tacts—and clout—with China International Travel Service (CITS).

For individually-tailored travel, Abercrombie and Kent (10F Siberian Fur Store Building, 29 Des Voeux Road, Hong Koog, tel: 5-216-657) will arrange tourist and/or business trips on ahort ootice.

Other veteran China travel arrangers include Silkway Travel (suite 1127A Star House, Kowloon, tel: 3-724-3322), which can even connect you with the trans-Siberian railway to Moscow and London.

Swire Travel is ona of Hong Kong's most experieoced companies handling Cbina trips (Swire Travel, 2F, Swire House, Hoog Koog, tel: 5-216-216).

American Exprass has opened a one-stop travel service centre oo the grouod floor of the New World Tower on Queen's Road Central (tel: 5-214-521).

The South China Morning Post Family Bookstoras and Kelly and Watsh are amoog several English-language bookstores that carry China-related books. The Regal Meridian Hotel at Kaitak Airport has a China trade centre, which is a clearing house of information on doing business (tel: 3-716-601).

WHERE TO GO

While the tourisl tracks to places lika Guangzhou and Shenzben are heavily trodden, there are an increasing number of unspoilt areas within easy striking distance of Hong Kong. You can now play golf in China (on a course designed by Arnold Palmer) at the Zhong Shan Hot Spring Golf Club and Resort, a little over an bour away from Hong Kong by hovercraft.

Privata villas—with jacuzzis—can be rented for quite reasonable rates. (Zhong Shan Resort's Hong Kong office: room 504, Pedder Buildiug, Pedder Street, Hong Kong, tel: 5-210-317).

Best of the one-day packages are probably througb the quaint Portuguese-admioistered territory of Macau. Hovercraft trips up the Pearl River to Guangzbou are also possible in a day.

Three to five days will provide time for the astonishing mouotain sceoery around Guilin (traval by air via Guangzhou). Or take an overnight boat to Shangbai, or fly directly to Xiao (rich in disporsed archaeological sites so a car and guide will be needed). Kunming, a centre of colourful minority culture in Yunnan Province, is a short direct flight from Hong Kong.

WHEN TO GO

October and May are the lovellest months but also the busiest, which may mean it is hard to get hotel rooms or good tour guides. Mid-winter and summer weather in China can be extreme, although temperature control in most tourist hotels is adequate.

Travel during festival times, like the Chinese New Year around February or the mid-autumn festival, can be a lively but horribly crowded experience.

TRAVEL TIPS

- Make sure return arrangements from China are made before you leave Hong Kong. Don't forget to take the phona numbers of your Hong Kong travel agency.
- Most places still do not accept credit cards and if they do it is more trouble than it is worth. Carry travellers cheques or cash.
- If you get stranded don't panic. Contrary to what you may be told about full flights, go and check in for stand-by status an hour before any flight to Guangzhou or Hong Kong. Last-minute seats are often available.
- Always remember to head for Guangzhou, where you can always find a way back to Hong Kong. Bus services from Guangzhou to the Hong Kong border (which closes at 8 pm), are available, as are taxis that cost around US$100 for the three-hour journey.